

[COMPARATIVE COMMITTEE PRINT]

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CONFERENCE COMPARISON

ON

H.R. 10612

TAX REFORM ACT OF 1976

Prepared for the Use of the House and Senate Conferees

By the Staff of the

Joint Committee on Internal Revenue Taxation

August 24, 1976

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REVENUE IMPACT OF HOUSE AND SENATE VERSIONS OF H.R. 10612

TABLE 1.—REVENUE EFFECT OF ALL PROVISIONS¹

[In millions of dollars; fiscal years]

Title	House of Representatives					Senate				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
I—LAL.....	463	278	317	341	380	196	125	133	172	230
II—Other tax shelters.....	321	307	349	379	447	808	967	1,117	1,222	1,339
III—Minimum and maximum tax.....	1,083	1,188	1,302	1,416	1,544	14,350	-9,293	-5,802	-5,975	-6,162
IV—Individual income tax reductions.....	-5,851	-3,148	-3,305	-3,471	-3,645	-715	-749	-789	-831	-881
V—Tax simplification for individuals.....	-486	-437	-452	-473	-494	204	217	257	288	296
VI—Individual business-related provisions.....	229	241	282	309	316	(²)	(²)	(²)	(²)	(²)
VII—Accumulation trusts.....	(²)	(²)	(²)	(²)	(²)	-1,765	-3,957	-4,242	-4,531	-4,826
VIII—Capital formation.....	-1,325	-3,321	-3,470	-3,627	-2,244	-1,676	-2,221	-2,406	-2,579	-2,771
IX—Small business provisions.....	-1,676	-1,177				278	191	223	302	378
X—Foreign income.....	104	26	51	84	88	78	347	530	566	688
XI—DISC amendments.....	500	598	614	636	694	13	97	53	53	53
XII—Administrative provisions.....	107	71	71	71	71	-108	-26	-120	-193	-298
XIII—Technical (House), Misc. (Senate) provisions.....	-108	-57	-57	-42	-42	-13	-21	-25	-34	-51
XIV—Capital gains and losses.....	-31	-2	46	36	17	-9	-51	-83	-78	-70
XV—Pension and insurance provisions.....	-474	-466	-505	-546	-572	(²)	(²)	(²)	(²)	(²)
XVI—Real estate investment trusts.....	(²)	(²)	(²)	(²)	(²)	-92	-149	-134	-119	-108
XVII—Railroad provisions.....	-26	-18	-18	-18	-18					
XVIII—Garden tools credit.....	-24	-22	-24	-24	-26	-311	-505	-441	-76	-67
XX—Energy provisions.....						-8	-45	41	-42	-43
XXI—Tax-exempt organizations.....							-1,042	-1,367	-1,688	-2,006
XXII—Estate and gift taxes.....						-17	-15	-10	-1	5
XXIII—Other amendments.....										
XXIV—U.S. International Trade Commission.....						(²)	(²)	(²)	(²)	(²)
XXV—Additional misc. provisions.....						-27	-500	-756	-980	-1,174
XXVI—Other misc. amendments.....						-85	-46	-67	-72	-78
XXVII—Additional Senate floor amendments.....										
Total.....	-7,194	-5,939	-4,799	-4,929	-3,484	-17,625	-16,676	-13,970	-14,596	-15,546

¹ Does not include Title XIX—Repeal and Revision of Obsolete, Rarely Used, Etc., Provisions.

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TABLE 2.—PROVISIONS WITH REVENUE GAIN BY TITLE¹

[In millions of dollars; fiscal years]

Title	House of Representatives					Senate				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
I—LAL.....	464	281	320	344	384					
II—Other tax shelters.....	321	307	349	379	447	197	129	141	180	237
III—Minimum and maximum tax.....	1,083	1,188	1,302	1,416	1,544	819	979	1,129	1,235	1,353
IV—Individual income tax reductions.....										
V—Tax simplification for individuals.....	380	357	387	417	450	107	100	108	118	126
VI—Individual business-related provisions.....	229	241	282	309	318	204	217	257	288	296
VII—Accumulation trusts.....	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)
VIII—Capital formation.....										
IX—Small business provisions.....										
X—Foreign income.....	215	184	216	255	266	420	373	388	407	418
XI—DISC amendments.....	500	598	614	636	694	78	347	530	566	688
XII—Administrative provisions.....	107	71	71	71	71	(²)	110	66	66	66
XIII—Technical (House), misc. (Senate) provision.....						52	75	(²)	(²)	(²)
XIV—Capital gains and losses.....	157	264	377	392	407	(²)	(²)	(²)	(²)	(²)
XV—Pension and insurance provisions.....	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)
XVI—Real estate investment trusts.....										
XVII—Railroad provisions.....										
XVIII—Garden tools credit.....										
XX—Energy provisions.....						(²)	(²)	(²)	(²)	(²)
XXI—Tax-exempt organizations.....						(²)	(²)	(²)	(²)	(²)
XXII—Estate and gift taxes.....						(²)	(²)	5	8	12
XXIII—Other amendments.....						(²)	(²)	(²)	(²)	(²)
XXIV—U.S. International Trade Commission.....										
XXV—Additional miscellaneous provisions.....						(²)	(²)	(²)	(²)	(²)
XXVI—Other miscellaneous amendments.....										
XXVII—Additional Senate floor amendments.....						5	30	10	10	10
Total.....	3,456	3,491	3,918	4,219	4,581	1,882	2,360	2,634	2,878	3,206

¹ Does not include Title XIX—Repeal and Revision of Obsolete, Rarely Used, Etc., Provisions.

² Negligible (less than \$5 million).

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TABLE 3.—PROVISIONS WITH REVENUE LOSS BY TITLE¹

[In millions of dollars; fiscal years]

Title	House of Representatives					Senate				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
I—JAL	-1	-3	-3	-3	-4	-1	-4	-8	-8	-7
II—Other tax shelters						-11	-12	-12	-13	-14
III—Minimum and maximum tax						-14,350	-9,293	-5,802	-5,975	-6,162
IV—Individual income tax reductions	-5,851	-3,148	-3,305	-3,471	-3,645	-822	-849	-897	-949	-1,007
V—Tax simplification for individuals	-866	-794	-839	-890	-944	(²)	(²)	(²)	(²)	(²)
VI—Individual business-related provisions						-1,765	-3,957	-4,242	-4,531	-4,826
VII—Accumulation trusts	(²)	(²)	(²)	(²)	(²)	-1,676	-2,221	-2,406	-2,579	-2,771
VIII—Capital formation	-1,325	-3,321	-3,470	-3,627	-2,244	-142	-182	-165	-105	-40
IX—Small business provisions	-1,676	-1,177				-13	-13	-13	-13	-13
X—Foreign income	-111	-158	-165	-171	-178					
XI—DISC amendments	(²)	(²)	(²)	(²)	(²)					
XII—Administrative provisions	(²)	(²)	(²)	(²)	(²)					
XIII—Technical (House), miscellaneous (Senate)										
provision										
XIV—Capital gains and losses	-108	-57	-57	-42	-42	-160	-101	-120	-193	-298
XV—Pension and insurance provisions	-188	-266	-331	-356	-390	-13	-21	-25	-34	-51
XVI—Real estate investment trusts	-474	-463	505	-546	-572	-9	-51	-83	-78	-70
XVII—Railroad provisions	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)	(²)
XVIII—Railroad provisions	-26	-18	-18	-18	-18	-92	-149	-134	-119	-108
XVIII—Garden tools credit	-24	-22	-24	-24	-26					
XX—Energy provisions						-311	-505	-441	-76	-67
XXI—Tax-exempt organizations						-8	-45	-41	-42	-43
XXII—Estate and gift taxes						-17	-1,042	-1,367	-1,688	-2,006
XXIII—Other amendments							-15	-15	-9	-7
XXIV—U.S. International Trade Commission										
XXV—Additional misc. provisions						(²)	(²)	(²)	(²)	(²)
XXVI—Other misc. amendments						-27	-500	-756	-980	-1,174
XXVII—Additional Senate floor amendments						-90	-76	-77	-82	-88
Total	-10,650	-9,430	-8,717	-9,148	-8,065	-19,507	-19,036	-16,604	-17,474	-18,752

¹ Does not include Title XIX—Repeal and Revision of Obsolete, Rarely Used, Etc., Provisions.

(12)

TABLE 4.—COMPARISON OF REVENUE EFFECT OF TAX REFORM AND TAX CUT PROVISIONS
[In millions of dollars; fiscal years]

	House of Representatives					Senate				
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
TAX REFORM										
Including estate and gift taxes ¹										
Excluding estate and gift taxes	1,633	1,692	1,966	2,159	2,405	-299	-1,856	-2,302	-2,425	-2,799
						-299	-814	-935	-737	-793
EXTENSION OF TAX CUTS										
Individual income tax reduction	-5,851	-3,148	-3,305	-3,471	-3,645	-14,350	-9,293	-5,802	-5,975	-6,162
Change in corporate tax rates and increase in surtax exemption	-1,676	-1,177				-1,676	-2,221	-2,406	-2,579	-2,771
Ten percent investment credit and \$100,000 used property limitation	-1,300	-3,306	-3,460	-3,617	-2,244	-1,300	-3,306	-3,460	-3,617	-3,814
Total, extension of tax cuts	-8,827	-7,631	-6,765	-7,088	-5,889	-17,326	-14,820	-11,668	-12,171	-12,747
Grand total, tax reform and extension of tax cuts	-7,194	-5,939	-4,799	-4,929	-3,484	-17,625	-16,676	-13,970	-14,596	-15,546

¹ If the estimated effect of the Estate and Gift Tax Reform Act of 1976 (H.R. 14844), as reported by the Committee on Ways and Means, were included in tax reform in the House

Bill, the fiscal year receipts effect would be as follows: 1977, \$1,618 million; 1978, \$1,077 million; 1979, \$1,163 million; 1980, \$1,177 million; and 1981, \$1,488 million.

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PROVISIONS IN BOTH THE HOUSE AND SENATE BILLS WHICH ARE THE SAME

The following is a list of the provisions which are the same in both the House and the Senate versions of H. R. 10612.

1. Section 210(a): Dollar limitation with respect to additional first year depreciation allowance for partnerships
2. Section 211: Scope of waiver of statute of limitations in case of hobby loss elections
3. Section 501: Revision of tax tables for individuals
4. Section 503 of House bill; section 504 of Senate amendment: Revision of retirement income credit
5. Section 1022: Repeal of exclusion for earnings of less-developed country corporations for purposes of section 1248
6. Section 1023: Exclusion from subpart F for certain earnings of insurance companies
7. Section 1033: Dividends from less-developed country corporations to be grossed up for purposes of determining United States income and foreign tax credit against that income
8. Section 1044: Transitional rule for bond, etc., losses of foreign banks
9. Section 1052: Western Hemisphere Trade Corporations
10. Section 1208: State conducted lotteries
11. Section 1302: Treatment of certain disaster payments
12. Section 1305 of House bill; section 208 of Senate amendment: Clarification of definition of produced film rents
13. Section 1403 of House bill; section 1401 of Senate amendment: Allowance of 8-year capital loss carryover in case of regulated investment companies
14. Section 1701 of House bill; section 1702 of Senate amendment: Amortization over 50-year period of railroad grading and tunnel bores placed in service before 1969

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TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action	
A. Real Estate Provisions					
1. Limitation on deductions (LAL) (Sec. 101 of House bill, p. 7)	None	<p>Applies LAL to interest and taxes during the construction period and to accelerated depreciation (in excess of straight-line depreciation) on a consolidated basis for all real property.</p> <p><i>Effective date</i>—Generally applies to construction beginning after 1975. An exception is provided for residential construction begun before January 1, 1978 (if there is a binding commitment before 1977), and for governmentally subsidized housing on which construction begins before January 1, 1981 (if a binding commitment is obtained before 1979).</p> <p><i>Revenue effect</i>—Gain of \$90 million in fiscal 1977, \$114 million in fiscal 1978, and \$261 million in fiscal 1981.</p>	No provision.		
2. Limitation on deductible losses of limited partners (Sec. 210(e) of Senate amdt., p. 49) (Floor amdt. by Sen. Haskell, adopted 48-42)	<p>A limited partner may deduct from his personal income his allocable share of all losses of the partnership, but not more than the amount of the basis for his interest in the partnership. A limited partner's basis in his partnership interest is increased (in the same proportion as he shares profits) by any partnership liability with respect to which there is no personal liability on the part of any of the partners. Consequently, a limited partner may substantially increase the basis of his partnership interest, and thus the amount of partnership losses he may deduct, by a portion of the partnership liabilities with respect to which he has no personal liability. The effect of this is that limited partners are enabled to deduct amounts exceeding the amount of investment they have at risk in the partnership.</p>		<p>Restricts the amount of partnership liabilities which may be included in a limited partner's basis in his partnership interest to an amount equal to any further contributions (over and above any actual contributions) which the limited partner is obligated to make pursuant to the partnership agreement. The effect of this provision is to limit deductions which may be passed through to a limited partner to the amount of investment which he actually has and will have at risk in the partnership.</p> <p><i>Effective date</i>—Applies to limited partnerships formed after June 30, 1976, except in the case of low and moderate income housing limited partnerships, where it will apply to limited partnerships formed after December 31, 1981.</p> <p>As a result of a floor amendment by Senator Sparkman, adopted by voice vote, the exception for moderate income housing includes any housing for which rents do not exceed 120 percent of fair rental value (as determined by HUD).</p> <p><i>Revenue effect</i>—Gain of \$5 million in fiscal 1977, \$6 million in fiscal 1978, and \$90 million in fiscal 1981.</p>		

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
A. Real Estate Provisions—Continued				
3. Minimum tax (Sec. 301 of both bills; p. 83 of House bill and p. 51 of the Senate amdt.)	Accelerated depreciation in excess of straight-line depreciation on real estate is included in the minimum tax base.	Adds interest and taxes during the construction period to the minimum tax base except to the extent LAL applies to an item during the year.	Adds interest (but not taxes) during the construction period and excess investment interest as items of tax preference to the minimum tax base. Treats all interest of a partnership as investment interest with respect to limited partners (except for government subsidized housing constructed before January 1, 1976). In the case of government subsidized housing the preference for construction period interest is not to apply to amounts paid before 1982. The preference for excess investment interest is not to apply to properties acquired or constructed by the taxpayer before 1982.	
(Sec. 2724 of Senate amdt., p. 1068)			The preference for construction period interest is not to apply to amounts paid before 1982 with respect to moderate income housing (i.e., 120 percent of fair market rental as determined by HUD) and with respect to housing held as inventory for sale. The preference for excess investment interest is not to apply to any amounts paid with respect to moderate income housing if the property is acquired or constructed pursuant to a binding, written contract or financing commitment entered into before 1982. (Floor amendment by Sen. Sparkman adopted 47-30.)	
		<i>Effective date</i> —Effective for amounts paid or incurred in taxable years beginning after December 31, 1975.	<i>Effective date</i> —Effective for amounts paid or incurred in taxable years beginning after December 31, 1975.	
		<i>Revenue effect</i> —Gain of \$40 million in fiscal 1977, \$44 million in fiscal 1978, and \$59 million in fiscal 1981.	<i>Revenue effect</i> —Gain of \$50 million in fiscal 1977, \$55 million in fiscal 1978, and \$73 million in fiscal 1981.	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
A. Real Estate Provisions—Continued				
4. Recapture of depreciation on real property (Sec. 201 of both bills; p. 41 of House bill and p. 12 of the Senate amdt.)	<p>In the case of commercial real estate, any capital gain realized is treated as ordinary income to the extent of post-1969 depreciation taken in excess of straight-line depreciation. In the case of residential property generally, this rule applies to property held during the first 100 months (8$\frac{1}{3}$ years) with a phaseout during the next 100 months; that is, no recapture after 16$\frac{2}{3}$ years.</p> <p>For governmentally subsidized housing acquired or constructed before January 1, 1976, the phaseout begins at 20 months (1$\frac{2}{3}$ years) and is completed at 120 months (10 years).</p>	<p>In the case of residential real estate, recaptures all post-1975 depreciation in excess of straight-line, in the same manner as is presently the case of commercial real estate.</p> <p>In the case of governmentally subsidized housing, provides full recapture of post-1975 depreciation for the first 100 months (8$\frac{1}{3}$ years) and a phaseout recapture for the second 100 months (up to 16$\frac{2}{3}$ years). There will be no recapture thereafter.</p>	<p>Same as House bill.</p> <p>In the case of governmentally subsidized housing, provides full recapture where the construction of the property commences after 1981. In the case where the construction of the property commenced before 1982 (or pursuant to a binding contract entered before such date), the amount of recapture attributable to accelerated depreciation taken after 1975 is to be the present 100-month rule for residential real property.</p>	
(Sec. 2725 of Senate amdt., p. 1070)				<p>Provides that in the case of governmentally subsidized housing under section 221(d)(3) or 236 of the National Housing Act, recapture of depreciation is to be under the 20-month rule if the construction began before January 1, 1976. Further provides that in the case of section 221(d)(3) or 236 housing, on which construction begins after December 31, 1976, other governmentally subsidized housing, and moderate income housing (i.e., for which rents do not exceed 120 percent of fair market rental—as determined by HUD) the amount of recapture attributable to depreciation taken after 1975 is to be the present 100-month rule for all residential real estate. (Floor amendment by Sen. Sparkman, adopted by 47–30.)</p> <p><i>Effective date</i>—Accelerated depreciation taken after 1975.</p> <p><i>Revenue effect</i>—Gain of \$9 million in fiscal 1977, \$18 million in fiscal 1978, and \$56 million in fiscal 1981.</p>

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
A. Real Estate Provisions—Continued				
5. Five-year amortization for low-income housing (Sec. 102 of House bill, p. 40) (Sec. 201 of Senate amd.; p. 12)	<p>In the case of low-income rental housing, taxpayers can elect to compute depreciation on certain rehabilitation expenditures over 60 months if the additions or improvements have a useful life of 5 years or more. The aggregate rehabilitation expenditures as to any housing must not exceed \$15,000 per dwelling unit and the sum of the rehabilitation expenditures for two consecutive taxable years must exceed at least \$3,000 per dwelling unit. This special 5-year amortization rule for low-income rental housing expired on December 31, 1975.</p>	<p>Extends the special 5-year depreciation rule for two years (until January 1, 1978). Also the aggregate rehabilitation expenditures that can be taken into account per dwelling unit is increased from \$15,000 to \$20,000.</p>	<p>Same as the House bill except that it provides that rehabilitation expenditures that are made pursuant to a binding contract entered into before January 1, 1978, would qualify for the 5-year amortization rule even though the expenditures are actually made after December 31, 1977.</p> <p>Also modifies the definition of families and individuals of low and moderate income by providing that the income limits would be determined in a manner consistent with those presently established for the leased housing program under sec. 8 of the 1937 Housing Act.</p>	
(Sec. 2725(c) of Senate amd.;, p. 1074)			<p>Extends the special 5-year depreciation rule until January 1, 1982. (Floor amendment by Sen. Sparkman, adopted 47-30.)</p> <p><i>Revenue effect</i>—Loss of \$1 million in fiscal 1977, \$4 million in fiscal 1978, and \$7 million in fiscal 1981.</p>	

Revenue effect—Loss of \$1 million in fiscal 1977, \$3 million in fiscal 1978, and \$4 million in fiscal 1981.

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
B. Farming Provisions				
6. Limitation on deductions (LAL) (Sec. 101 of House bill, p. 7)	None	<p>Applies LAL to:</p> <p>(a) expenses attributable to crops, animals, trees or similar property to the extent these are incurred before the crop, animal or tree becomes productive (or is disposed of). (This does not apply to taxes and interest or expenses caused by casualties or to grain, oil seed, fiber, pasture, tobacco, silage and forage crops or to livestock other than poultry.)</p> <p>(b) prepaid feed, seed, fertilizer and similar farm supply expenses (except that this does not include amounts paid for feed if the taxpayer on the average produces more than 50 percent of the feed consumed by his livestock).</p> <p>(c) accelerated depreciation of livestock (or other property having a crop or yield) after they have begun to be productive.</p> <p>The exclusions listed in (a) above for grain, oil seed, fiber, pasture, tobacco, silage, forage crops and livestock other than poultry would not be available to farming syndicates. Also, the exclusion for prepaid feed where the farmer grows more than 50 percent of his own feed would not apply in the case of these syndicates.</p> <p>In the case of farm operations, an individual may offset up to \$20,000 of nonfarm income with these deductions; the offset is then reduced on a dollar-for-dollar basis for each dollar of nonfarm income in excess of \$20,000. All farm income is consolidated and treated together (except in the case of farm syndicates).</p> <p><i>Effective date</i>—Applies to expenses paid or incurred after December 31, 1975, except that with respect to that part of a grove, orchard or vineyard planted before September 11, 1975.</p> <p><i>Revenue effect</i>—Gain of \$99 million in fiscal 1977, \$36 million in fiscal 1978, and \$40 million in fiscal 1981.</p>	No provision.	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
B. Farming Provisions—Con.				
7. Limitation on deductions to amount at risk (Sec. 207 of House bill, p. 68; sec. 202 of Senate amdt., p. 23)	Generally, a taxpayer may deduct losses from an investment to the extent of his basis in the investment. In addition, in many farm tax shelters, a taxpayer's equity investment is partially protected against loss by nonrecourse loans, stop-loss orders, guaranteed repurchase agreements, etc. Thus, a taxpayer can deduct amounts substantially in excess of the amount he is "at risk" from an economic viewpoint.	Limits deductions for losses from certain farming activities to the amount a taxpayer is economically at risk. Applies to livestock (other than poultry), grain, oil seed, fiber, pasture, tobacco, silage, and forage crops. <i>Effective date</i> —Applies to losses incurred after September 10, 1975.	Applies at risk rule to all farming operations, except trees other than fruit or nut trees. <i>Effective date</i> —Applies to amounts paid or incurred in taxable years beginning after December 31, 1975. <i>Revenue effect</i> —Gain is negligible.	
8. Limitations on deductions for farming syndicates (Sec. 204 of Senate amdt., p. 30)	None	No provision. <i>Revenue effect</i> —Gain is negligible.	Requires farming syndicates (1) to deduct expenses for feed, seed, fertilizer, and other farm supplies only when used or consumed (not when paid); (2) to capitalize costs of poultry; and (3) to capitalize the costs of planting, cultivating, maintaining and developing a grove, orchard or vineyard which are incurred prior to the year the grove, orchard or vineyard becomes productive. <i>Effective date</i> — (1) Applies generally to taxable years beginning after December 31, 1975, except which securities have been approved for sale by SEC prior to April 15, 1976. (The exception was a Senate floor amendment by Sen. Bellmon, passed by voice vote.) (2) Rules relating to orchards, groves and vineyards apply to those planted after 1975.	
9. Accrual accounting for farm corporations (Sec. 204 of House bill, p. 54)	Any taxpayer engaged in farming may use the cash method of accounting and generally can deduct preproductive period expenses.	Requires corporations (other than subchapter S corporations and family corporations) and partnerships in which a corporation is at least a 50-percent partner to use the accrual method of accounting and to capitalize preproductive period expenses. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1975. <i>Revenue effect</i> —Gain of \$44 million in fiscal 1977, \$30 million in fiscal 1978, and \$30 million in fiscal 1981.	No provision. <i>Revenue effect</i> —Gain of \$79 million in fiscal 1977, \$31 million in fiscal 1978, and \$34 million in fiscal 1981.	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
B. Farming Provisions—Con.				
10. Termination of additions to Excess Deductions Accounts (EDA) (Sec. 203 of both bills; p. 53 of House bill and p. 28 of Senate amdt.)	Section 1251 provides, in general, that where a taxpayer has generated substantial losses from farming operations (in the same or later years than the losses), he may have to treat certain farm income he later realizes as ordinary income rather than capital gain. The amount of potential recapture is measured by the farm losses in the excess deductions account (EDA).	Provides that there will be no further additions to EDA accounts.	Same as House bill.	
		<i>Effective date</i> —Applies to taxable years beginning after December 31, 1975.	Adds a provision allowing divisive "D" reorganizations without triggering EDA recapture. Applies entire EDA account to both corporations. (Floor amendment by Senator Tower; passed by voice vote).	
		<i>Revenue effect</i> —Loss is negligible.	<i>Effective date</i> —Same as House bill. Amendment applies to reorganizations after December 31, 1975.	
C. Oil and Gas Provisions				
11. Limitation on deductions (LAL) (Sec. 101 of House bill, p. 7)		Applies LAL to intangible drilling and development costs in excess of amounts which would be deductible if these costs were capitalized and amortized on wells other than exploratory wells. LAL is applied on a property-by-property basis.	No provision.	
		<i>Effective date</i> —LAL would apply to intangible costs paid or incurred after December 31, 1975.	<i>Revenue effect</i> —Loss is negligible.	
		<i>Revenue effect</i> —Gain of \$220 million in fiscal 1977, \$80 million in fiscal 1978, and \$28 million in fiscal 1981.		
		Limits the deduction for losses from oil and gas properties to the amount with respect to which the taxpayer is at risk.	Substantively the same as the House bill, except that under the Senate amendment the fair market value of property used as collateral increases the amount considered to be at risk.	
		<i>Effective date</i> —Applies to amounts paid or incurred after December 31, 1975.	<i>Effective date</i> —Same as House bill.	
		<i>Revenue effect</i> —Gain is negligible.	<i>Revenue effect</i> —Gain of \$50 million in fiscal 1977, \$18 million in fiscal 1978, and \$6 million in fiscal 1981.	
12. Limitation on deductions to amount at risk (Sec. 208 of the House bill, p. 71; sec. 202 of the Senate amdt., p. 23)	The amount of losses a taxpayer may claim on any activity is generally limited to the taxpayer's cost or other basis in the leased property. Basis includes not only the taxpayer's actual cash investment in the property and liabilities a taxpayer is obligated to pay, but also costs financed through nonrecourse loans for which the taxpayer will not be held personally liable. The taxpayer's actual risk of economic loss may also be further limited by other contractual arrangements (such as guarantees or repurchase agreements). As a result, a taxpayer is entitled to deduct losses which substantially exceed the amount he is actually "at risk" in a transaction.			

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
C. Oil and Gas Provisions— Con.				
13. Minimum tax (Sec. 301 of both bills; p. 83 of House bill and p. 51 of Senate amdt.)	Intangible drilling costs are not included in the minimum tax base under present law.	Includes intangible drilling costs in the minimum tax base to the extent they exceed the amount of deductions which would be allowed if those costs were capitalized and amortized. However, the minimum tax would not apply to the extent that LAL applies to an item during the year.	Includes intangible drilling costs in the minimum tax base to the extent they exceed the amount of deductions which would be allowed if those costs were capitalized and amortized and to the extent they exceed the taxpayer's income from oil production.	
		<i>Effective date</i> —Effective for amounts paid or incurred after December 31, 1975. <i>Revenue effect</i> —Gain of \$6 million in fiscal 1977, \$6 million in fiscal 1978, and \$8 million in fiscal 1981. Recaptures all deductions for intangible drilling costs to the extent that they exceed the amount of the deductions which would be allowed if those costs were capitalized and amortized. <i>Effective date</i> —Effective with respect to costs paid or incurred after December 31, 1975. <i>Revenue effect</i> —Gain of \$7 million in fiscal 1977, \$14 million in fiscal 1978, and \$65 million in fiscal 1981.	<i>Effective date</i> —Same as House bill. <i>Revenue effect</i> —Gain of \$6 million in fiscal 1977, \$6 million in fiscal 1978, and \$7 million in fiscal 1981. No provision.	
14. Recapture of intangible drilling costs (Sec. 202 of House bill, p. 49)	None			

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
D. Movie Provisions				
15. Limitation on deductions (LAL)				
(Sec. 101 of House bill, p. 7)				
a. Film purchase shelter	None	a. Applies LAL to depreciation or amortization of a film or video tape.	No provision.	
b. Service company shelter	None	b. Applies LAL to costs of producing, displaying and distributing a film or video tape. <i>Effective date</i> —LAL applies generally to amounts paid or incurred after September 10, 1975. Under transition rules, LAL will not apply to film purchase shelter if principal photography begins before September 11, 1975, there was a binding written contract for the purchase of the film on that date, and the taxpayer held his interest in the film on that date. LAL will not apply to production costs, etc., if the principal photography began before September 11, 1975, and the investor had acquired his interest in the film before that date. Also, LAL will not apply to U.S. produced film if principal photography began before January 1, 1976, if certain commitments with respect to the film had been made by September 10, 1975. <i>Revenue effect</i> —Gain of \$33 million in fiscal 1977, \$32 million in fiscal 1978, and \$33 million in fiscal 1981.	No provision.	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
D. Movie Provisions—Con.				
16. At risk rule				
a. Film purchase shelter (Sec. 202 of the Senate amdt., p. 23)	<p>The amount of losses a taxpayer may claim on any activity is generally limited to the taxpayer's cost or other basis in the leased property. Basis includes not only the taxpayer's actual cash investment in the property and liabilities a taxpayer is obligated to pay, but also costs financed through nonrecourse loans for which the taxpayer will not be held personally liable. The taxpayer's actual risk of economic loss may also be further limited by other contractual arrangements (such as guarantees or repurchase agreements). As a result, a taxpayer is entitled to deduct losses which substantially exceed the amount he is actually "at risk" in a transaction.</p>	a. Limits the deduction to the amount for which the taxpayer is at risk.	a. Limits the losses which may be deducted to the amount for which the taxpayer is at risk.	
b. Service company shelter (Sec. 207 of the House bill, p. 68; sec. 202 of the Senate amdt., p. 23)		b. Limits the deduction to the amount for which the taxpayer is at risk.	b. Limits the losses which may be deducted to the amount for which the taxpayer is at risk. The at risk rule will not apply to a service company shelter if (1) the film is 80 percent U.S. produced, (2) the taxpayer's basis consisting of money paid in is at least 25 percent of his basis in the activity during the five years after the film is placed in service, and (3) the taxpayer elects irrevocably to have the amount of the nonrecourse loan recaptured not more than 5 years after the film is placed in service.	
	<p><i>Effective date</i>—Applies generally to amounts paid or incurred after September 10, 1975. Under transition rules, at risk does not apply to a film if principal photography began before September 11, 1975, or if a binding written contract for nonrecourse financing of the film was in effect before that date. Also, the at risk rule will not apply to U.S. produced films if principal photography began before January 1, 1976, if certain commitments with respect to that film were made by September 10, 1975.</p>		<p><i>Effective date</i>—The at risk rule for both types of shelters applies to losses attributable to amounts paid or incurred after December 31, 1975.</p>	
	<p><i>Revenue effect</i>—Gain is negligible.</p>		<p><i>Revenue effect</i>—Gain of \$1 million in fiscal 1977, \$8 million in fiscal 1978, and \$17 million in fiscal 1981.</p>	

Item	Present law	House bill	Senate amendment	Conference action
D. Movie Provisions—Con.				
17. Capitalization rules (Sec. 207 of both bills; p. 68 of House bill and p. 37 of Senate amdt.)	No specific provision; however, questions arise under present law as to whether any method other than capitalization "clearly reflects income".	No provision.	Requires individuals and subchapter S corporations to capitalize the costs of producing, displaying, and distributing motion pictures, books, records and other similar property and permits them to deduct these capitalized production costs over the life of the income stream generated from the production activity.	
			<i>Effective date</i> —Capitalization requirement apply to costs paid or incurred after December 31, 1975, where the principal production of the property in question begins after that date.	
			<i>Revenue effect</i> —Gain of \$29 million in fiscal 1977, \$19 million in fiscal 1978, and \$4 million in fiscal 1981.	
E. Equipment Leasing Provisions				
18. Limitation on deductions (LAL) (Sec. 101 of House bill, p. 7)	None	Applies LAL to the excess of the depreciation or amortization claimed by the taxpayer over the deduction allowable if the straight line method of depreciation (computed without regard to "bonus" depreciation and the 20-percent variance in useful lives authorized under ADR rules) had been used. LAL would apply on a property-by-property basis.	No provision.	
		<i>Effective date</i> .—Generally effective for accelerated deductions attributable to periods after September 10, 1975, arising from equipment leasing transactions which occur after this date. Exceptions are provided for transactions which were substantially under way but not finalized by this date.		
		<i>Revenue effect</i> —Gain of \$12 million in fiscal 1977, \$17 million in fiscal 1978, and \$17 million in fiscal 1981.		

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
E. Equipment Leasing—Con.				
19. Limitation on deductions to amount at risk (Sec. 202 of the Senate amdt., p. 28)	<p>The amount of losses a taxpayer may claim on any investment activity is generally limited to the taxpayer's cost or other basis in the activity. Basis includes not only the taxpayer's actual cash investment in the property and liabilities the taxpayer is obligated to pay, but also costs financed through non-recourse loans for which the taxpayer will not be held personally liable. The taxpayer's actual risk of economic loss may also be further limited by other contractual arrangements such as guarantees or repurchase agreements. As a result, a taxpayer is entitled to deduct losses which substantially exceed the amount he is actually "at risk" in a transaction.</p>	<p>No provision.</p>	<p>Limits the amount of losses a taxpayer may deduct from an equipment leasing activity to the amount which the taxpayer has actually placed at risk in the activity.</p>	
20. Minimum tax (Sec. 301 of both bills; p. 82 of House bill and p. 51 of Senate amdt.)	<p>Accelerated deductions for depreciation and amortization in excess of straight line depreciation are included in the minimum tax base in the case of "net" leases of personal property.</p>	<p>Extends the minimum tax to accelerated depreciation and amortization deductions, including those attributable to use of the ADR system and "bonus" depreciation, to personal property leases which are not covered under present law. However, the minimum tax would not apply to the extent that LAL applies to an item during the year.</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$2 million in fiscal 1977, \$2 million in fiscal 1978, and \$3 million in fiscal 1981.</p>	<p><i>Effective date</i>—Applies to losses attributable to amounts paid or incurred after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$6 million in fiscal 1977, \$14 million in fiscal 1978, and \$14 million in fiscal 1981.</p> <p>Extends the preference items in present law to apply to all leases of personal property.</p>	<p><i>Effective date</i>—Same as House bill.</p> <p><i>Revenue effect</i>—Gain of \$2 million in fiscal 1977, \$2 million in fiscal 1978, and \$3 million in fiscal 1981.</p>

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
F. Sports Franchise Provisions				
21. Limitation on deductions (LAL) (Sec. 101 of House bill, p. 7)	None	Applies LAL to depreciation (or amortization) of a specified portion of the basis in player contracts. The specified portion is the total amount allocated by the purchaser to the basis of the contracts less the sum of the seller's adjusted basis and the ordinary income (if any) recognized by the seller upon disposition of the franchise which is attributable to player contracts.	No provision.	
		<i>Effective date</i> —Applies to sports franchises established or transferred after November 4, 1975 unless, on or prior to that date and at all times thereafter, there was a binding contract for the transfer or establishment of the franchise.		
		<i>Revenue effect</i> —Gain of \$1 million in fiscal 1977, \$2 million in fiscal 1978, and \$5 million in fiscal 1981.		
22. Allocation of basis to player contracts (Sec. 209 of both bills; p. 72 of House bill, and p. 40 of Senate amdt.)		In the case of the sale or exchange of a sports franchise, provides that the amount allocable to player contracts by a purchaser could not exceed the amount of the sales price allocated to these contracts by the seller.	Same as the House bill, except adds a provision in the case of a one-year corporate liquidation to take into account for purposes of computing the adjusted basis of player contracts any gain recognized by the shareholders to the extent of any tax paid. (This amendment was added on the Senate floor by Sen. Brooke and passed by voice vote.)	
		In the case of the sale or exchange of a sports franchise, provides a presumption that not more than 50 percent of the consideration would be allocable to player contracts unless the taxpayer can satisfy the Secretary of the Treasury that (under the facts and circumstances of the particular case) it is proper to allocate an amount in excess of 50 percent.	No provision.	
		<i>Effective date</i> —This provision is to apply to sports franchises sold or exchanged after December 31, 1975.	<i>Effective date</i> —This provision is to apply to sports franchises sold or exchanged after December 31, 1975.	
		<i>Revenue effect</i> —Gain of \$1 million in fiscal 1977, \$4 million in fiscal 1978, and \$8 million in fiscal 1981.	<i>Revenue effect</i> —Gain is negligible.	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
23. Recapture of depreciation on player contracts (Sec. 209 of both bills; p. 72 of House bill, and p. 40 of Sen. amdt.)	Depreciation taken with respect to player contracts is recaptured on a contract-by-contract basis. Thus, depreciation taken with respect to contracts of players that have retired or been "out" will not be recaptured.	Establishes a pool for the recapture of gain as ordinary income for all previously unrecaptured depreciation on the sale of a player contract or a sports franchise (whether or not attributable to the player contracts actually sold). The "unrecaptured depreciation" means depreciation taken on player contracts after December 31, 1975, and the deductions for losses on player contracts incurred after December 31, 1975.	Same as the House bill except that (1) the pool recapture of depreciation and deductions for losses taken with respect to player contracts applies only in the case of the sale or exchange of the entire sports franchise and (2) the amount subject to recapture on the sale of the entire sports franchise would be limited to the greater of (a) the sum of the depreciation taken plus any deductions taken for losses attributable to player contracts initially acquired as a part of the original acquisition of the franchise, or (b) the amount of depreciation taken on those player contracts owned by the seller at the time of sale of the franchise; but not in excess of the gain, if any, attributable to player contracts.	
		<i>Effective date</i> —This provision is to apply to the sum of the depreciation allowed or allowable with respect to player contracts after December 31, 1975, and the deductions allowed for losses with respect to player contracts incurred after December 31, 1975.	<i>Effective date</i> —Applies to transfers of player contracts in connection with any sale or exchange of a franchise after December 31, 1975.	
24. Minimum tax (Sec. 301 of House bill, p. 83)	None	<i>Revenue effect</i> —Gain of \$7 million in fiscal 1977, \$6 million in fiscal 1978, and \$7 million in fiscal 1981. Includes depreciation attributable to player contracts which are acquired in connection with a sale or exchange of a sports franchise as an item of tax preference for purposes of the minimum tax to the extent not deferred because of the application of LAL. <i>Effective date</i> —Effective for amounts paid or incurred after December 31, 1975. <i>Revenue effect</i> —Gain is negligible.	<i>Revenue effect</i> —Gain of \$6 million in fiscal 1977, \$5 million in fiscal 1978, and \$6 million in fiscal 1981. No provision.	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
G. Partnership Provisions				
25. Partnership syndication and organization fees (Sec. 210 (b) of both bills; p. 77 of House bill and p. 45 of Senate amdt.).	<p>Until recently, it has been common for limited partnerships to claim a deduction for payments made to a general partner for services rendered by him with respect to the syndication and organization of the limited partnership. Recently, the Service ruled (Rev. Rul. 75-214, 1975-1 C.B. 185) that these payments represent capital expenditures and, as such, are not currently deductible. Moreover, in a recent case involving a related situation, the United States Tax Court disallowed the deduction for payments of this type made to a general partner. (<i>Jackson E. Cagle, Jr.</i>, 63 T.C. 86 (1974), on appeal to C.A. 5.)</p> <p>Presently, investments in tax shelter limited partnerships are commonly made toward the end of the year. It is also common for the limited partnership to have been formed earlier in the year on a skeletal basis with one general partner and a so-called "dummy" limited partner. In many cases, the limited partnership incurs substantial deductible expenses prior to the year-end entry of the limited partner-investors. In these cases, a full share of the partnership losses for the entire year is usually allocated to the limited partners joining at the close of the year. These are referred to as "retroactive allocations." It is not clear under present law whether retroactive allocations are permissible, although in practice they are frequently taken.</p>	<p>Requires that fees paid in connection with the organization and syndication of a partnership be capitalized.</p> <p><i>Effective date</i>—Applies to all taxable years to which the Internal Revenue Code of 1954 applies.</p> <p><i>Revenue effect</i>—This provision and the partnership provisions of section 210(c) and (d) below, will increase revenues by less than \$5 million annually.</p>	<p>Same as House bill with respect to syndication fees, but allows the amortization of organization fees over a five-year period.</p> <p><i>Effective date</i>—The syndication fee provision applies to taxable years beginning after December 31, 1975. The organization fee provision applies to taxable years beginning after December 31, 1976.</p> <p><i>Revenue effect</i>—This provision and the partnership provisions of section 210(c) and (d) below, will increase revenues by less than \$5 million annually.</p>	
26. Retroactive allocations of partnership income or loss (Sec. 210(c) of both bills; p. 78 of House bill, and p. 47 of Senate amdt.).		<p>Provides that income or losses will be allocable to a partner only for the portion of the year he is a member of a partnership. In determining the income, loss or special item allocable to an income partner, the partnership will either allocate on a daily basis or separate the partnership year into two (or more) segments and allocate income, loss or special items in each segment among the persons who were partners during that segment.</p> <p><i>Effective date</i>—Applies to partnership taxable years beginning after December 31, 1975.</p>	<p>Same as House bill, except for changes adding clarifying language.</p> <p><i>Effective date</i>—Same as House bill.</p>	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
G. Partnership Provisions—Continued				
27. Partnership special allocations (Sec. 210(d) of both bills; p. 79 of House bill, and p. 48 of Senate amdt.)	<p>A limited (or a general) partnership agreement may allocate income, gain, loss, deduction, or credit (or items thereof) among the partners in a manner that is disproportionate to the capital contributions of such partners. These are sometimes referred to as "special allocations" and, with respect to any taxable year, may be made by amendment to the partnership agreement at any time up to the initial due date of the partnership tax return for that year.</p> <p>A partnership agreement special allocation of "any item of income, gain, loss, deduction, or credit" will not be recognized, however, if its principal purpose is to avoid or evade any income tax. Since this provision applies to allocations of <i>items</i> of income, gain, loss, deduction, or credit, it has been argued that the provision does not apply to, and would not preclude, allocations of taxable income or loss, as opposed to specific items of income, gain, deduction, loss or credit.</p>	<p>Provides that an allocation of taxable income or loss, as well as any item of income, gain, loss, deduction or credit, will be controlled by the partnership agreement if the partner receiving the allocation can demonstrate that the allocation has a business purpose and that no significant tax avoidance or evasion results from the allocation. If an allocation made by the partnership is set aside, a partner's share of the income, gain, loss, deduction or credit (or item thereof) will be determined in accordance with the partnership's permanent method of allocating the taxable income or loss, or, if there is no such method, in accordance with the partner's interest in the partnership.</p>	<p>Same as House bill except in two minor respects. First, the Senate amendment disallows a special allocation lacking "substantial economic effect," while the House bill does so with respect to a special allocation lacking "a business purpose" or where "significant avoidance or evasion of any tax . . . results from such allocation." Second, in the event of a disallowance of a special allocation, the Senate amendment provides for reallocation only in accordance with the partner's interest in the partnership, thereby deleting the House bill's alternative method of reallocating in accordance with the partnership's permanent method of allocating taxable income or loss.</p>	
		<p><i>Effective date</i>—Applies to partnership taxable years beginning after December 31, 1975.</p>	<p><i>Effective date</i>—Applies to partnership taxable years beginning after December 31, 1975.</p>	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
23. Deductible losses of limited partners—at risk investment (Sec. 210(e) of Sen. amdt, P. 49) (Floor amdt. by Sen. Haskell, adopted 48-42)	<p>A limited partner may deduct from his personal income his allocable share of all the deductible items of the partnership, but not more than the amount of the basis for his interest in the partnership. A limited partner's basis in his partnership interest is increased (in the same proportion as he shares profits) by any partnership liability with respect to which there is no personal liability on the part of any of the partners. Consequently, a limited partner may substantially increase the basis in his partnership interest, and thus the amount of partnership losses he may deduct, by a portion of the partnership liabilities with respect to which he has no personal liability. The effect of this is that limited partners are enabled to deduct amounts exceeding the amount of investment they have at risk in the partnership.</p>	No provision.	<p>Restricts the amount of partnership liabilities which may be included in a limited partner's basis in his partnership interest to an amount equal to any further contributions (over and above any actual contributions) which the limited partner is obligated to make pursuant to the partnership agreement. The effect of this provision is to limit deductions which may be passed through to a limited partner to the amount of investment which he actually has and will have at risk in the partnership.</p>	
			<p><i>Effective date</i>—Applies to limited partnerships formed after June 30, 1976, except in the case of low-income and moderate-income housing limited partnerships, where it will apply to limited partnerships formed after December 31, 1981. (The exception for moderate-income housing, defined as any housing the rent for which is 120% or less of fair market rental as determined by HUD, was included as a result of a floor amendment by Mr. Sparkman adopted 47-30.)</p>	
			<p><i>Revenue effect</i>—Gain of \$5 million in fiscal 1977, \$6 million in fiscal 1978, and \$90 million in fiscal 1981.</p>	

TITLES I AND II—LAL AND OTHER TAX SHELTER PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
H. Interest Provisions				
29. Prepaid interest (Sec. 205 of both bills; p. 59 of House bill and p. 35 of Sen. amd.)	<p>A taxpayer reporting his income on the accrual method of accounting can deduct prepaid interest only in the period or periods in which the interest represents the cost of using the funds during that period.</p> <p>Generally, a cash method taxpayer can deduct expenses in the year he actually pays them. It is unsettled, however, whether a cash method taxpayer can deduct prepaid interest in full in the year paid. Recent court decisions have supported the Internal Revenue Service in requiring a cash method taxpayer to allocate his deductions for prepaid interest over the period of the loan.</p>	<p>Requires a cash method taxpayer to deduct prepaid interest over the period of the loan to the extent the interest represents the cost of using the borrowed funds during each period.</p> <p>Requires points paid on a loan to be deducted ratably over the term of the loan, except in the case of a mortgage secured by the taxpayer's principal residence.</p>	<p>Same as the House bill, except that the rule permitting current deductibility of points on a home mortgage is amended to apply only if points are generally charged in the geographical area where the loan is made and to the extent of the number of points generally charged in that area for a home loan.</p>	
30. Limitation on deduction of nonbusiness interest (Sec. 206 of House bill, p. 60)	<p>The deduction for interest on investment indebtedness is limited to:</p> <p>a. \$25,000 per year, plus</p> <p>b. the taxpayer's net investment income and long-term gain, plus</p> <p>c. one-half of any interest in excess of these amounts.</p> <p>Any interest deduction which is disallowed under this rule may be carried over to future years.</p>	<p>Limits the interest deduction for nonbusiness interest (i.e., personal plus investment interest) to \$12,000 per year plus the amount of a taxpayer's net investment income and long-term capital gain. However, in no case can personal interest in excess of \$12,000 be deducted in any year.</p> <p>Any investment interest which is not deductible because of this limitation may be carried forward and deducted in future years. (There is no carryover of any unused personal interest.)</p> <p><i>Effective date</i>—Applies to interest paid or incurred in taxable years beginning after December 31, 1975. However, these rules would not apply to interest on indebtedness incurred before September 11, 1975, or incurred after September 11, 1975, pursuant to a written contract or a commitment which on September 11, 1975, and at all times thereafter, is binding on the taxpayer (present law would continue to apply in these cases).</p> <p><i>Revenue effect</i>—Gain of \$241 million in fiscal 1977, \$225 million in fiscal 1978, and \$271 million in fiscal 1981.</p>	<p><i>Effective date</i>—Applies to prepayments of interest on and after Jan. 1, 1976. Excepts interest paid before Jan. 1, 1976, pursuant to a binding contract or written loan commitment in existence on Sept. 16, 1975.</p> <p><i>Revenue effect</i>—Gain is negligible.</p> <p>No provision directly dealing with nonbusiness interest deductions. However, investment interest in excess of investment income is included as an item of tax preference under the minimum tax (see item 31).</p>	

TITLE III—MINIMUM AND MAXIMUM TAXES

Item	Present law	House bill	Senate amendment	Conference action
<p>31. Minimum tax on individuals (Sec. 301 of both bills, p. 83 of House bill and p. 51 of Senate amd.)</p> <p>a. Tax rate</p> <p>b. Exemption</p> <p>c. Deduction for regular taxes</p> <p>d. Preferences included in minimum tax</p>	<p>10 percent.</p> <p>\$30,000.</p> <p>Deduction from preference income for regular taxes.</p> <p>Existing preferences:</p> <p>(1) the excluded one-half of capital gains;</p> <p>(2) the excess of percentage depletion over the basis of the property;</p> <p>(3) accelerated depreciation on real property;</p> <p>(4) the bargain element of stock options;</p> <p>(5) accelerated depreciation on personal property subject to a net lease;</p> <p>(6) the excess of amortization of on-the-job training and child care facilities over regular depreciation;</p> <p>(7) the excess of amortization of pollution control facilities over regular depreciation; and</p> <p>(8) the excess of amortization of railroad rolling stock over regular depreciation.</p>	<p>14 percent.</p> <p>\$20,000 phased out as preferences increase from \$20,000 to \$40,000.</p> <p>Repeals the deduction for regular taxes. (Floor amendment by Rep. Corman, adopted by 314-107.)</p> <p>Preferences added to present law:</p> <p>(1) itemized deductions in excess of 70 percent of adjusted gross income;</p> <p>(2) intangible drilling costs for oil and gas wells in excess of deduction if costs were capitalized;</p> <p>(3) construction period interest and taxes;</p> <p>(4) accelerated depreciation on all leased personal property (including ADR and bonus first-year depreciation); and</p> <p>(5) depreciation on player contracts of sports teams acquired in connection with a franchise purchase;</p> <p>Items are not considered preferences if they are deferred under LAL. (Corman floor amendment, adopted by 314-107.)</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$1,083 million in fiscal 1977, \$1,188 million in fiscal 1978, and \$1,544 million in fiscal 1981.</p>	<p>15 percent.</p> <p>\$10,000 or regular taxes, whichever is greater.</p> <p>Keeps the deduction for regular taxes but limits it to taxpayers who do not use the \$10,000 exemption.</p> <p>Preferences added to present law:</p> <p>(1) itemized deductions (other than medical and casualty deductions) in excess of 60 percent of adjusted gross income;</p> <p>(2) intangible drilling costs in excess of amount deductible if capitalized and in excess of net income from oil production;</p> <p>(3) construction period interest;</p> <p>(4) accelerated depreciation on all personal property subject to a lease (excluding ADR and bonus first-year depreciation, as under present law); and</p> <p>(5) investment interest in excess of investment income (with income and interest expense of limited partners considered to be investment income and expense).</p> <p>Transition rules are provided for preferences 3 and 5 as applied to low- and moderate-income housing and to houses held as inventory for sale (see item 3 above).</p> <p><i>Effective date</i>—Applies for taxable years beginning after December 31, 1975, except for housing as described above.</p> <p><i>Revenue effect</i>—Gain of \$756 million in fiscal 1977, \$831 million in fiscal 1978, and \$1,106 million in fiscal 1981.</p>	

TITLE III—MINIMUM AND MAXIMUM TAXES—Continued

Item	Present law	House bill	Senate amendment	Conference action
32. Minimum tax on corporations				
a. Tax rate	10 percent.		15 percent.	
b. Exemption	\$30,000.	No provision.	\$10,000 or regular taxes, whichever is greater.	
c. Deduction for regular taxes	There is a deduction from preference income for regular taxes.	No provision.	The Senate amendment limits the deduction for regular taxes to cases where the corporation does not claim the \$10,000 exemption.	
d. Carryover of regular taxes	Regular taxes that are not used to offset preferences in the current year may be carried forward for up to 7 additional years.	No provision.	The carryover is eliminated. Taxes from taxable years beginning before July 1, 1976, cannot be used in years beginning after June 30, 1976.	
e. Preferences included in minimum tax	Existing preferences: (1) 18/48 of capital gains; (2) percentage depletion; (3) accelerated depreciation on real property; (4) bad debt reserves of financial institutions; (5) rapid amortization on pollution control facilities; (6) rapid amortization on railroad rolling stock; and (7) rapid amortization on child care and on-the-job training facilities.	No provision.	Adds new preferences for construction period interest and accelerated intangible drilling costs in excess of related income.	
f. Exemption for timber	None	No provision.	Timber is exempt from the increase in the minimum tax. <i>Effective date</i> —Applies for taxable years beginning in 1976, but for 1976 only one-half of the increase in the minimum tax applies. For banks and savings and loan associations, the increase in the minimum tax only applies to 1978 and future years. <i>Revenue effect</i> —Gain of \$59 million in fiscal 1977, \$124 million in fiscal 1978, and \$204 million in fiscal 1981.	

TITLE III—MINIMUM AND MAXIMUM TAXES—Continued

Item	Present law	House bill	Senate amendment	Conference action
33. Maximum tax (Sec. 302 of the Senate amdt., p. 62)	There is a maximum marginal tax rate of 50 per cent on earned income. The amount of earned income eligible for the maximum tax is reduced by current year tax preferences (or, if greater, one-fifth of tax preferences for past five years) in excess of \$30,000.	No provision.	Eliminates the \$30,000 exemption to the preference offset and the 5-year averaging provision. Extends the maximum tax to pensions and annuities. Adds the new minimum tax preferences to the preference offset. Redefines "earned income" as "personal service income."	<i>Effective date</i> —Taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Gain of \$4 million in fiscal 1977, \$24 million in fiscal 1978, and \$43 million in fiscal 1981.

TITLE IV—INDIVIDUAL TAX REDUCTIONS

Item	Present law	House bill	Senate amendment	Conference action
34. General tax credit (Sec. 401 (a) of both bills; p. 93 of House bill and p. 66 of Senate amdt.)	<p>The Tax Reduction Act of 1975 included a tax credit of \$30 per capita for the year 1975.</p> <p>The Revenue Adjustment Act of 1975 included a credit equal to the greater of \$35 per capita or 2 percent of the first \$9,000 of taxable income. This applied for the first half of 1976.</p>	<p>Includes a tax credit for 1976 equal to the greater of 2 percent of the initial \$12,000 of taxable income or \$30 per capita.</p> <p><i>Revenue effect</i>—Loss of \$2,958 million in fiscal 1977 after taking into account the effect of the Revenue Adjustment Act of 1975 and no revenue effect thereafter.</p> <p>Makes permanent the increases from the Tax Reduction Act of 1975.</p> <p><i>Revenue effect</i>—Loss of \$2,893 million in fiscal 1977 after taking into account the effect of the Revenue Adjustment Act of 1975, \$3,148 million in fiscal 1978, and \$3,645 million in fiscal 1981.</p>	<p>Extends the \$35 tax credit from the Revenue Adjustment Act of 1975 through 1976 and 1977. (Floor amendment by Senator Allen extending tax credit from June 30, 1977 (the Committee provision), to January 1, 1978, adopted by 66-28).</p> <p><i>Revenue effect</i>—Loss of \$9,509 million in fiscal 1977, \$3,462 million in fiscal 1978, and no revenue effect thereafter.</p> <p>Makes permanent the increases from the Revenue Adjustment Act of 1975.</p> <p><i>Revenue effect</i>—Loss of \$4,146 million in fiscal 1977, \$3,148 million in fiscal 1978, and \$3,645 million in fiscal 1981.</p>	
35. Standard deduction (Sec. 401 (b) of both bills; p. 96 of House bill and p. 66 of Senate amdt.)	<p>Prior to 1975, the minimum standard deduction was \$1,300; the percentage standard deduction was 15 percent; and the maximum standard deduction was \$2,000.</p> <p>The Tax Reduction Act of 1975 raised the minimum standard deduction to \$1,600 for single returns and \$1,900 for joint returns; raised the percentage standard deduction to 16 percent; and raised the maximum standard deduction to \$2,300 for single returns and \$2,600 for joint returns. These increases applied to 1975.</p> <p>The Revenue Adjustment Act of 1975 raised the minimum standard deduction to \$1,700 for single returns and \$2,100 for joint returns; the percentage standard deduction to 16 percent; and the maximum standard deduction to \$2,400 for single returns and \$2,800 for joint returns. These changes applied only to the first half of 1976.</p>			

TITLE IV—INDIVIDUAL TAX REDUCTIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
36. Earned income credit (Sec. 401(c) of Sen. amdt., p. 69; and sec. 403 of Sen. amdt., p. 71)	<p>The earned income credit equals 10 percent of the first \$4,000 of earnings. It is phased out as adjusted gross income rises from \$4,000 to \$8,000 and is refundable.</p> <p>The credit is available only to people who maintain a household for a dependent child who is either under 19 or a student and for whom they are entitled to claim a personal exemption.</p> <p>This credit applied to 1975 and to the first 6 months of 1976.</p>	<p>No provision.</p>	<p>Makes permanent the earned income credit.</p> <p>Extends eligibility for the credit to people who maintain a household and are entitled to claim an exemption for a disabled child who is over 19. This is effective for 1977 and thereafter. (Floor amdt. by Sen. Thurmond, adopted by voice vote.)</p> <p>Extends eligibility to parents who maintain a household for a child who is either a student or under age 19 but who are not entitled to claim a personal exemption for the child.</p> <p><i>Revenue effect</i>—Loss of \$695 million in fiscal 1977, \$1,335 million in fiscal 1978, and \$1,181 million in fiscal 1981.</p> <p><i>Effective date</i>—The provision making the credit permanent is effective after June 30, 1976. The extension of eligibility to custodial parents applies to taxable years beginning after December 31, 1974. The extension of eligibility for those with disabled adult children applies to taxable years beginning after December 31, 1976.</p> <p>Provides a permanent "disregard" identical to the one that applied under present law.</p>	
37. Disregard of earned income credit (Sec. 402 of both bills; p. 97 of House bill and p. 71 of Sen. amdt.)	<p>Refunds resulting from the earned income credit received before July 1, 1976, are to be disregarded in determining eligibility for any benefits under Federal or federally assisted aid programs if the recipient is a beneficiary in the month prior to the refund.</p>	<p>Provides a permanent "disregard" without the requirement that the recipient be a beneficiary of the program in the month before he receives the refund.</p>		

Dec 31, 1975

TITLE V—TAX SIMPLIFICATION

Item	Present law	House bill	Senate amendment	Conference action
<p>38.* Alimony payments (Sec. 502 of House bill, p. 101; Sec. 503 of Sen. amdt., p. 76)</p> <p>*As a result of a technical error, a Senate floor amendment striking the limitation on the gasoline tax from section 502 of the Senate amendment failed to strike all of the original Senate amendment.</p> <p>39. Child care expenses (Sec. 504 of House bill, p. 110) (Sec. 505 of Sen. amdt., p. 86)</p>	<p>Taxpayers claiming a deduction for alimony payments must claim them as an <i>itemized</i> deduction.</p> <p>Taxpayers may claim as an itemized deduction expenses incurred for the care of a child or disabled dependent or spouse up to \$4,800 a year.</p> <p>The maximum deduction is reduced by one dollar for every two dollars of income in excess of \$35,000.</p> <p>Payments to relatives are not deductible.</p>	<p>Changes the alimony deduction from an itemized deduction to a deduction in arriving at AGI so that taxpayers claiming the standard deduction, as well as itemizers, may take it.</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Loss of \$47 million in fiscal 1977, \$44 million in fiscal 1978, and \$59 million in fiscal 1981.</p> <p>Converts the deduction to a tax credit of 20 percent of eligible expenditures.</p> <p>Limits the maximum eligible expenses to \$2,000 for one dependent and \$4,000 for two or more; and eliminates the \$35,000 income limit.</p> <p>Extends the credit to married couples where one spouse works part-time or is a student and to divorced or separated parents who have custody of a child.</p> <p>Makes payments to relatives who are not dependents of the taxpayer deductible if: (1) they do not live in the taxpayer's home and (2) their pay for child care is subject to social security tax.</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Loss of \$379 million in fiscal year 1977, \$363 million in fiscal 1978, and \$483 million in fiscal 1981.</p>	<p>Same as House bill.</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1976.</p> <p><i>Revenue effect</i>—Loss of \$7 million in fiscal year 1977, \$44 million in fiscal 1978, and \$59 million in fiscal 1981.</p> <p>Same as the House bill, except that a Senate floor amendment by Senators Kennedy and Hathaway (adopted by 71-21) makes the credit refundable.</p> <p>Deletes the House bill provision which required a relative not to be a member of the taxpayer's household for payments to such person to be eligible.</p> <p><i>Effective date</i>—Same as House bill.</p> <p><i>Revenue effect</i>—Loss of \$414 million in fiscal year 1977, \$398 million in fiscal 1978, and \$518 million in fiscal 1981.</p>	

TITLE V—TAX SIMPLIFICATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>40. Sick pay and certain disability pensions (Sec. 505 of House bill, p. 119)</p> <p>(Sec. 506 of Sen. amdt., p. 94, and sec. 2501 of Sen. amdt., p. 984)</p>	<p>An employee may exclude from income up to \$100 a week received under wage continuation plans when he is absent from work on account of injury or sickness.</p> <p>Military personnel can exclude from income pensions for personal injuries or sickness paid by the Department of Defense (as well as all Veterans Administration benefits).</p>	<p>Repeals the sick pay exclusion. Provides an exclusion of up to \$5,200 a year for retirees under age 65 who are permanently and totally disabled. Reduces this \$5,200 exclusion dollar-for-dollar for income in excess of \$15,000.</p> <p>Eliminates the exclusion for non-combat related disability pensions for those who joined the armed forces after September 24, 1975, but continues the exemption for V.A. benefits or an equivalent amount paid by DOD.</p>	<p>A floor amendment by Sen. Bayh (adopted 48-34) retains present law but with a dollar-for-dollar phaseout of the exclusion for AGI in excess of \$15,000.</p> <p>A floor amendment offered by Sen. Beall (adopted 56-34) extended the sick pay exclusion to civilian employees of the Federal Government, regardless of age, who by the date of enactment retired on disability or were entitled to retire on disability, and who were either totally or partially disabled by the date of enactment.</p> <p>A provision added by the Committee amendment treats disability payments for injuries to civilian government employees resulting from acts of terrorism the same as combat-related injuries.</p>	
<p>41. Moving expenses (Sec. 506 of House bill, p. 124) (Sec. 507 of Sen. amdt., p. 101)</p>	<p>A taxpayer may deduct up to \$2,500 of expenses for house-hunting, selling and temporary lodging expenses, related to moving to a new place of work which is 50 miles farther from his former residence than was his former place of work. (In addition, all reasonable expenses of actual transportation and lodging expenses en route for taxpayer and family are deductible.)</p>	<p>(1) Increases the \$2,500 maximum deduction to \$3,000. (2) Decreases the 50-mile test to 35 miles. (3) Exempts in-kind moving services for members of the armed forces on active duty moved by military orders.</p>	<p>Same as the House bill except: Increases the \$3,000 maximum to \$3,500. Expands the provision for the military to include the cost (a) of moving a spouse to a place in the United States when the member is stationed overseas and (b) the cost of storing personal effects of military personnel who are forced to relocate. (Floor amdt. by Senator Hansen; adopted by voice vote.)</p>	<p><i>Effective date</i>—Same as House bill.</p> <p><i>Revenue effect</i>—Gain of \$107 million in fiscal year 1977, \$100 million in fiscal 1978, and \$126 million in fiscal 1981.</p>
		<p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$380 million in fiscal year 1977, \$357 million in fiscal 1978, and \$450 million in fiscal 1981.</p>	<p><i>Effective date</i>—Applies generally for taxable years beginning after December 31, 1976, except that the military provisions are to apply for years after 1975.</p> <p><i>Revenue effect</i>—Loss of \$10 million in fiscal year 1977, \$67 million in fiscal 1978, and \$90 million in fiscal 1981.</p>	

TITLE V—TAX SIMPLIFICATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
42. Tax simplification study by Joint Committee (Sec. 508 of Senate amdt., p. 104)	No specific provision (except that section 8022 of the Code provides that the Joint Committee on Internal Revenue Taxation is to "investigate the operation and effects of the Federal system of internal revenue taxes").	No provision.	Requires the Joint Committee to conduct a study on "simplifying and indexing the tax laws," (including whether tax rates can be reduced by repealing any or all tax deductions, exemptions or credits). A final report is to be submitted to the Senate Finance and House Ways and Means Committees within three months ^{27 June 30 74} of the date of enactment. (A floor amendment by Senator Hudsonston, adopted by voice vote, set the reporting time.) Requires the Secretary of the Treasury to submit a final report on its study on tax simplification (including an analysis of the integration of corporate and individual income taxes) to the Senate Finance and House Ways and Means Committees. (No date is specified for submission of the Treasury report.)	
43. Treasury report on simplification of income taxes (Sec. 509 of Senate amdt., p. 104)	The Secretary of the Treasury is required (under 31 U.S.C. 1027) to make an annual report to the Congress on the state of the finances of the U.S. Government for each fiscal year.	No provision.		

TITLE VI—BUSINESS-RELATED INDIVIDUAL PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action
44. Deductions for expenses attributable to business use of homes (Sec. 601 of both bills; p. 126 of House bill and p. 105 of Sen. amd.)	<p>If a portion of a personal residence is used in the taxpayer's trade or business or in the production of income, a deduction is allowed for the portion of the expenses incurred in maintaining the residence which are allocable to the business (or production of income) use.</p> <p>Under IRS regulations, the expenses of maintaining a household are not deductible if the taxpayer only incidentally conducts business in his home.</p> <p>The position of the Internal Revenue Service is that the maintenance of an office in the home by an employee must be required by the employer as a condition of employment and regularly used for the performance of the employee's duties.</p> <p>Certain courts have decided that a more liberal standard is appropriate. Under these decisions, the expenses attributable to an office maintained in an employee's residence are deductible if the maintenance of the office is "appropriate and helpful" to the employee's business. One court, however, suggested that to obtain a deduction, an employee would have to show that the office provided by the employer is not available at the times the employee uses the office in his residence or that the employer's office is not suitable for the purposes for which the taxpayer is using the office in his residence.</p>	<p>A taxpayer would not be permitted to deduct any expenses attributable to the use of his home for business purposes except to the extent attributable to the portion of the home used exclusively on a regular basis as: (a) the taxpayer's principal place of business; or (b) a place of business which is used for patients, clients, or customers in meeting or dealing with the taxpayer in the normal course of business. Further, in the case of an employee, the business use of the home must be for the convenience of his employer.</p> <p>An exception to the exclusive use test is provided where the dwelling unit is the sole fixed location of a trade or business which consists of selling products at retail and the taxpayer regularly uses a separate identifiable portion of the residence for inventory storage.</p> <p>An overall limitation is provided which limits the amount of the deductions to the income generated by the business activity of the taxpayer in his home.</p>	<p>Same as House bill except a deduction is allowed for the portion of the dwelling unit which is exclusively used on a regular basis (a) as the sole fixed location of the taxpayer's trade or business of selling goods or services at retail or wholesale, but only if the portion is used in connection with the sale of goods or services; (b) in the case of a separate structure which is not attached to the dwelling unit (in connection with the taxpayer's trade or business) and (c) if the employer provides no office or fixed location for the use of the employee in the employer's trade or business.</p>	<p>Provides that the business use of home includes in its meaning the use of the home in connection with the management, conservation, or maintenance of property held for the production of income and which is the substantial business of the taxpayer (floor amendment by Senator Bartlett, adopted by voice vote).</p> <p><i>Effective date</i>—Same as House bill.</p> <p><i>Revenue effect</i>—Gain of \$180 million in fiscal year 1977, \$180 million in fiscal 1978, and \$265 million in fiscal 1981.</p>
(Sec. 2713 of Senate amendment, p. 1054)		<p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$190 million in fiscal 1977, \$189 million in fiscal 1978, and \$279 million in fiscal 1981.</p>		

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TITLE VI—BUSINESS-RELATED INDIVIDUAL PROVISIONS—Continued

Item

Present law

House bill

Senate amendment

Conference action

45. Deduction for expenses attributable to rental of vacation homes
(Sec. 601 of both bills; p. 128 of House bill and p. 108 of Sen. amdt.)

Provides a limitation on the amount allowable to a taxpayer for the deductions attributable to the rental of a vacation home if the home is used by a taxpayer for personal purposes in excess of the greater of 2 weeks or 5 percent of the actual business use (that is, its rental time). In this case, the deductions allowed in connection with a vacation home cannot exceed the gross income from the business use of the vacation home, except expenses which are allowable in any event (such as interest and taxes).

Effective date.—Applies to taxable years beginning after December 31, 1975.

Revenue effect.—Gain of \$23 million in fiscal year 1977, \$23 million in fiscal 1978, and \$34 million in fiscal 1981.

Same as House bill except that: (1) one of the tests relating to the determination of personal use is increased from 5 percent to 10 percent of the number of days during the year for which the vacation home is rented; and (2) if a vacation home is actually rented for less than one month during the year, then no business deductions nor income derived from the use of the vacation home shall be taken into account in the taxpayer's return for the year.

Effective date.—Same as the House bill.

Revenue effect.—Gain of \$17 million in fiscal year 1977, \$17 million in fiscal 1978, and \$26 million in fiscal 1981.

46. Deductions for attending foreign conventions
(Sec. 602 of both bills; p. 132 of House bill and p. 112 of Sen. amdt.)

Generally, to be deductible, traveling expenses (domestic and foreign) must be ordinary and necessary in the conduct of the taxpayer's business and directly attributable to the trade or business.
If a trip is primarily related to the taxpayer's business, the entire traveling expenses (including food and lodging) to and from a destination are deductible. If a trip is primarily personal in nature, the traveling expenses to and from the destination are not deductible even if the taxpayer engages in business activities while at the destination.
With respect to expenses incurred in attending a convention or other meeting, deductibility depends upon the facts and circumstances of each case.

Deductions would be allowed for expenses incurred in attending not more than two conventions, educational seminars, or similar meetings outside the United States, its possessions and the Trust Territory of the Pacific.
The amount of the deduction for transportation expenses to and from these foreign conventions could not exceed the cost of airfare based on coach or economy class charges.
Transportation expenses would be deductible in full only if more than one-half of the total days of the trip (excluding the days of transportation to and from the site of the convention) are devoted to business-related activities. If less than one-half of the total days of the trip are devoted to business-related activities, a deduction would be allowed for transportation expenses only in the ratio of the business time to total time.

Provides that no deduction is to be allowed for expenses allocable to a convention, seminar or other meeting held outside the North American area unless, taking certain factors into account, it is more reasonable for the meeting to be held outside the North American area than within it. Generally, this requirement would be satisfied if the application of these factors demonstrated a compelling need to hold the meeting outside the North American area.
No deduction would be allowed for a convention, etc. held on a cruise ship.

TITLE VI—BUSINESS-RELATED INDIVIDUAL PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
	<p>The business expenses of travel outside the United States are deductible in full if the travel is for not more than one week or the time of travel outside the United States which is personal is less than 25 percent of the total time on the trip.</p>	<p>Deductions for subsistence expenses, such as meals, lodging, and other ordinary and necessary expenses, paid or incurred while attending the convention would be limited to the fixed amount of <u>per diem</u> allowed to government employees at the location where the convention is held. However, in order to deduct subsistence expenses up to this limitation for a day, there must generally be at least 6 hours of business-related activities scheduled daily (or 3 hours for a deduction for one-half day) and the taxpayer must have attended two-thirds of these activities.</p>		
		<p><i>Effective date.</i>—Applies to conventions held after December 31, 1975.</p>		<p><i>Effective date.</i>—Applies generally to meetings held after June 30, 1976. However, the provision shall not apply to any trip which begins before January 1, 1978, if it is established (in advance of the beginning of the trip) that the meeting was publicly announced before January 1, 1976, and that accommodations for the meeting were booked before January 1, 1976.</p>
(Sec. 2707 of Senate amdt. p. 1040; floor amendment by Sen. Inouye, adopted by 58-30).		<p><i>Revenue effect.</i>—Gain is negligible.</p>		<p><i>Revenue effect.</i>—Gain is negligible.</p>
				<p>Affirms that regulations relating to certain foreign travel (sec. 1.274-4) accurately reflect the intent of the Congress and represent a responsible limitation on the deduction of foreign travel expenses paid or incurred in connection with attendance at business meetings and conventions held outside the United States. Repeals foreign convention provision as provided under section 602 of the Senate amendment.</p>

TITLE VI—BUSINESS-RELATED INDIVIDUAL PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
47. Qualified stock options (Sec. 603 of both bills; p. 137 of House bill and p. 115 of Sen. amdt.)	<p>No income is recognized on the grant to a corporate employee, or on his exercise of a "qualified" option to receive stock in the employer corporation. The stock acquired by the exercise of the option is a capital asset in the hands of the employee and the income realized from the eventual sale of the stock is generally treated as long-term capital gain or loss.</p> <p>The value of a nonqualified stock option generally represents ordinary income to the employee if the option itself had a readily ascertainable fair market value at the time it was granted to the employee. If the option did not have a readily ascertainable fair market value it would not constitute ordinary income at the time it was granted, but when it is exercised the spread between the option price and the value of the stock at that time would constitute ordinary income to the employee.</p>	<p>Repeals qualified stock option treatment and subjects qualified stock options to the same rules as presently apply in the case of non-qualified options.</p>	<p>Generally, the same as the House bill. In addition, however, the Senate amendment contains a provision which allows an employee to elect early valuation of an option which does not have a readily ascertainable fair market value at the time it is granted. If the election is made, the option would be valued, and would be subject to tax, at the time it is granted. Otherwise, tax recognition would be postponed until the option was exercised.</p>	<p><i>Effective date</i>—Generally effective for options granted after May 20, 1976. The transition rules are the same as those of the House bill except that the transition rules are keyed to the May 20, 1976, date and options granted under the transition rules would have to be exercised before May 21, 1981. The provision allowing an employee to elect early valuation of an option applies to options granted after the date of enactment.</p> <p><i>Revenue effect</i>—Gain of \$7 million in fiscal 1977, \$20 million in fiscal 1978, and \$5 million in fiscal 1981.</p>

TITLE VI—BUSINESS-RELATED INDIVIDUAL PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
48. Nonbusiness guarantees (Sec. 604 of House bill, p. 138)	<p>In the case of a noncorporate taxpayer, business bad debts are deductible as ordinary losses. Nonbusiness bad debts are treated as short-term capital losses. However, where the noncorporate taxpayer's loss results from a situation where he guaranteed the debt of a noncorporate person, the guarantor may treat a payment under the guaranty as a business bad debt (even though the guaranty did not arise out of the guarantor's trade or business) if the proceeds of the loan were used by the borrower in his trade or business and the debt was worthless when paid by the guarantor.</p>	<p>Where a taxpayer has a loss arising from the guaranty of a loan, he would receive the same treatment as where he has a loss from a loan which he makes directly. If the guaranty arose out of the guarantor's trade or business, the loss would be treated as an ordinary loss. If the guaranty agreement were a transaction entered for profit by the guarantor (but not as part of his trade or business), the loss would be treated as a short-term capital loss.</p>		
		<p>No provision.</p>		
		<p><i>Effective date</i>—Effective for taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$6 million in fiscal 1977, \$5 million in fiscal 1978, and \$5 million in fiscal 1981.</p>		

1976

TITLE VI—BUSINESS-RELATED INDIVIDUAL PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
49. Deduction for legislators' travel expenses away from home (Sec. 605 of House bill, p. 139) (Sec. 604 of Senate amendment, p. 117)	<p>The place of residence of a Member of Congress within the Congressional district he represents in Congress is considered his tax home. However, amounts expended by the Member within the tax year for living expenses away from home are not deductible in excess of \$3,000.</p> <p>The above rule for determining the tax home of a Member of Congress does not apply in the case of a State legislator. The tax home of a State legislator is determined by taking into account a number of factors, such as: (a) the total time ordinarily spent by the taxpayer at each location, (b) the degree of business activity at each location, (c) the amount of income ordinarily spent by the taxpayer at each location, etc.</p>	<p>Modifies the \$3,000 limitation presently allowed to Members of Congress to provide that deductions by a Member of Congress would be limited to an amount determined by the IRS. The IRS is to establish an annual amount taking into account the number of days that the Members are away from home, the cost of living in Washington, D.C., and the amount normally allowed businessmen in similar circumstances.</p> <p>Provides that the tax home of a State legislator is his place of residence within the legislative district he represents. The allowable deduction for living expenses is limited to an amount determined by the IRS. The IRS is to determine a daily amount taking into account the cost of living at the place where the State legislature meets and the amounts normally allowed businessmen under similar circumstances. A State legislator is allowed to deduct up to this daily amount multiplied by the number of days of his legislative participation during the calendar year.</p>	<p>Deletes the provision in the House bill relating to Members of Congress; thus, the present \$3,000 limitation is retained.</p>	
		<p>Provides that the tax home of a State legislator is his place of residence within the legislative district he represents. The allowable deduction for living expenses is limited to an amount determined by the IRS. The IRS is to determine a daily amount taking into account the cost of living at the place where the State legislature meets and the amounts normally allowed businessmen under similar circumstances. A State legislator is allowed to deduct up to this daily amount multiplied by the number of days of his legislative participation during the calendar year.</p>	<p>Same as the House bill in the case of State legislators except that (1) provides that the Secretary of Labor (rather than the IRS) is to establish the daily amount allowable as a deduction for State legislators, and (2) modifies the definition of a legislative day for taxable years beginning before December 31, 1974, to include any day in which the State legislature was not in session for a period of 4 consecutive days or less.</p>	
		<p><i>Effective date</i>—In general, effective for taxable years after December 31, 1974.</p> <p>For taxable years beginning before December 31, 1974, a State legislator can elect to have the above rules apply. If an election is made, the legislator is to be treated as having expended for living expenses an amount equal to the daily per diem allowed U.S. Government employees multiplied by the number of days the State legislature was in session. However, the total amount of deductions allowable can not exceed the amount already claimed on the State legislator's tax return for the year in question.</p>	<p><i>Effective date</i>—Same as House bill except that it applies to taxable years beginning after December 31, 1975, and the election for past years is to be available for taxable years beginning before December 31, 1975.</p>	
		<p><i>Revenue effect</i>—The revenue impact of this provision cannot be estimated until the Internal Revenue Service determines the deduction level.</p>	<p><i>Revenue effect</i>—The revenue impact of this provision cannot be estimated until the Bureau of Labor Statistics determines the deduction level.</p>	

TITLE VII—ACCUMULATION TRUSTS

Item	Present law	House bill	Senate amendment	Conference action
<p>50. Accumulation trusts (Sec. 701 of both bills; p. 144 of the House bill and p. 121 of Senate amendment.)</p>	<p>Distributions by a trust of previously accumulated income are taxed substantially the same as if they were distributed when earned, i.e., "thrown back" to the year earned. The tax on the distributions of previously accumulated income is computed under either the "exact method" or the "short-cut" method. Under the "exact method", the tax on the accumulation distribution is the sum of the additional taxes that would have been payable by the beneficiary if the income had been distributed when earned and the tax on the beneficiary been entirely recomputed. Under the "short-cut" method, the tax on the accumulation distribution is computed by averaging the accumulation distribution over the number of years during which the accumulated income was earned by the trust, including this average amount in the beneficiary's income for each of the 3 immediate prior years, and then multiplying the average additional tax for those years by the number of years during which the accumulated income was earned.</p> <p>Under both methods, the beneficiary is entitled to a credit for taxes paid by the trust on the accumulation distribution.</p>	<p>Repeals "exact method" of computing tax on accumulation distributions. Modifies "short-cut" method by throwing back the average accumulation distribution to 3 of the 5 preceding years, excluding those years with the highest and lowest incomes. No refunds of excess taxes paid by the trust would be permitted. Income accumulated prior to the beneficiary's attaining an age of 21 and the years a beneficiary was not in existence are not subject to the throw-back rule. Special rules are provided for multiple trusts.</p>	<p>Same as House bill except as modified below.</p>	
	<p>The "throw-back" rules also apply to distributions of accumulated capital gains.</p>	<p>Repeals capital gain throw-back rules, but taxes "built-in" gain on sales occurring within 2 years of the transfer to the trust as short-term capital gain.</p>	<p>Instead of a 2-year holding period, the trust is taxed at the grantor's rate brackets on "built-in" gain occurring within 2 years of transfer to the trust.</p>	
	<p><i>Effective date</i>—applies generally to distributions made in taxable years beginning after December 31, 1974.</p>	<p><i>Effective date</i>—Applies generally to distributions made in taxable years beginning after December 31, 1975, for to distributions actually made in taxable years beginning after December 31, 1975, if such distributions are deemed to have been made in taxable years beginning before December 31, 1976. The special rule for gain on property transferred to a trust applies to transfers made after May 21, 1976.</p>	<p><i>Revenue effect</i>—Loss is negligible.</p>	

TITLE VIII—CAPITAL FORMATION

Item	Present law	House bill	Senate amendment	Conference action
<p>51. Extension of \$100,000 limitation on used property for the investment credit (Sec. 801 of both bills; p. 155 of House bill and p. 133 of Senate amendment)</p>	<p>Prior to 1975, up to \$50,000 of the cost of used property could be taken into account as qualified investment for purposes of the investment tax credit for a taxable year. The Tax Reduction Act of 1975 increased the amount to \$100,000 for 1975 and 1976.</p>	<p>Extends the limit of \$100,000 on used property for 4 additional years, through December 31, 1980.</p>	<p>Makes permanent the increased limitation of \$100,000 on used property.</p>	
<p>52. Extension of 10-percent investment credit (Sec. 801 of House bill, p. 154) (Sec. 802 of Senate amendment, p. 133)</p>	<p>Provides a permanent investment credit of 7 percent (4 percent for certain utility property) for qualified equipment. The Tax Reduction Act of 1975 increased the credit to 10 percent for all qualified property (including utility property) through December 31, 1976.</p>	<p>Revenue effect—Loss of \$38 million in fiscal 1977, \$142 million in fiscal 1978, and \$118 million in fiscal 1981.</p> <p>Extends the 10-percent credit for 4 years, through Dec. 31, 1980.</p>	<p>Revenue effect—Loss of \$38 million in fiscal 1977, \$142 million in fiscal 1978, and \$164 million in fiscal 1981.</p> <p>Makes permanent the 10-percent credit. (For ESOP provisions, see sec. 804 of Senate amendment.)</p>	
<p>53. First-in-first-out treatment of investment credit amounts (Sec. 802 of Senate amendment, p. 133)</p>	<p>The amount of investment credit in any year generally cannot exceed \$25,000 of tax liability plus 50 percent of such liability in excess of \$25,000. A 3-year carryback and 7-year carryforward is then applied to credits which are not used because of the tax liability limitation.</p> <p>In any year, credits earned in that year are used first.</p>	<p>Revenue effect—Loss of \$1,262 million in fiscal 1977, \$3,164 million in fiscal 1978, and \$2,126 million in fiscal 1981.</p> <p>No provision.</p>	<p>Revenue effect—Loss of \$1,262 million in fiscal 1977, \$3,164 million in fiscal 1978, and \$3,650 million in fiscal 1981.</p> <p>In any year, credits carried over are used first and then credits earned currently are used. If there is more than one carryforward or carryback to a particular year, the oldest is used first.</p> <p>Effective date—Applies to credits carried forward for taxable years beginning after December 31, 1975.</p> <p>Revenue effect—Loss of less than \$5 million in fiscal 1977 and 1978, and \$40 million in fiscal 1981.</p>	
<p>54. Extension of expiring investment credits (Sec. 803 of Senate amendment, p. 137)</p>	<p>Provides generally a 3-year carryback and 7-year carryforward of unused investment tax credits. Unused investment tax credits earned before 1970 may be carried forward 10 years.</p>	<p>No provision.</p>	<p>Provides that investment tax credits which would otherwise expire in 1976 are to be extended two additional years.</p> <p>(Floor amendment by Sen. Kennedy, adopted 67-2, limited extension to just investment tax credit instead of both investment and foreign tax credits.)</p> <p>Revenue effect—Loss of \$9 million in fiscal 1977, \$20 million in fiscal 1978, and \$11 million in fiscal 1979.</p>	

TITLE VIII—CAPITAL FORMATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
55. ESOP investment credit provisions (Secs. 802 and 804 of Senate amdt., p. 134 and 138)	An extra percentage point of investment credit (11 percent rather than 10 percent) is allowed where the additional credit amount is contributed to an employee stock ownership plan (ESOP). The additional credit expires after 1976.	No provision.	Increases additional ESOP credit to 2 percentage points permanently. The amendment (1) prevents flow-through of investment credit contributed by a public utility to an ESOP; (2) permits employer securities to be contributed to an ESOP as the credit is allowed rather than when it is claimed; (3) provides rules for recaptured and disallowed investment credits which have been contributed to an ESOP; (4) permits use of stock of "brother-sister" corporations, "second-tier" subsidiaries and corporations which would be affiliates except for non-voting preferred stock to be contributed to an ESOP under the investment credit rules; (5) excludes employer stock held by an ESOP for purposes of determining whether corporations are sufficiently affiliated to permit the filing of consolidated returns; (6) permits ESOPs to be considered permanent plans even though contributions are contingent upon the availability of the additional investment credit; (7) doubles the overall limitation on contributions permitted to be made to an ESOP and provides that employee compensation for purposes of the ESOP rules is the same as that under the overall limitations; (8) permits a limited amount of administrative expenses to be charged against additional investment credit contributed to an ESOP; and (9) permits an employer to qualify for additional 1975 investment credit if the additional credit is contributed to an ESOP not later than 90 days after the Act is enacted. <i>Effective date</i> —Applies generally to taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Loss of \$385 million in fiscal 1977, \$584 million in fiscal 1978, and \$917 million in fiscal 1981.	<i>Print Am 1/12/80 10% + 1/2% for conference plan</i>

TITLE VIII—CAPITAL FORMATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
56. Retroactive regulations on Employee Stock Ownership Plans (ESOPs) (Sec. 2701 of Senate amendment, p. 1033) (Floor amendment by Senator Stevens, adopted by voice vote)	Generally, Treasury and Labor Department regulations may apply both prospectively and retroactively.	No provision.	Prohibits any retroactive Department of Labor or Treasury regulations relating primarily to ESOPs.	
57. Commission on stock ownership expansion (Sec. 2816 of Senate amendment, p. 1056) (Floor amendment by Senator Javits, adopted by voice vote.)	None.	No provision.	Establishes a 15-member Commission on Expanded Stock Ownership: five appointed by the President; five by the President pro tempore of the Senate; and five by the Speaker of the House. The Commission is to study broadening stock ownership through employee stock ownership plans (ESOPs) and other means. <i>Effective date</i> —A final report is to be made to the President and the Congress not later than March 30, 1978. The Commission is to be disbanded 60 days after report. <i>Revenue effect</i> —None. Appropriations are authorized for the Commission as necessary.	

TITLE VIII—CAPITAL FORMATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
58. Investment credit for movie and television films (Sec. 802 of the House bill, p. 155); (Sec. 805 of the Senate amdt., p. 150)	<p>Prior to 1971, it was not clear whether the investment credit was available for films. The Revenue Act of 1971 made it clear that films are to be treated as tangible personal property which is eligible for the credit. However, this issue is still being litigated for years prior to 1971, and there are still a number of unsettled issues, such as how to determine the useful life of a film, the basis on which the credit is to be computed, and how to determine whether there has been a predominant foreign use of the film.</p>	<p>For the future, as a general rule, taxpayers are to receive $\frac{2}{3}$'s of a full credit for all their films regardless of the actual useful life of any particular film. However, taxpayers may elect to determine useful life on a film-by-film basis. Under this method, the useful life of a film will be treated as being ended when 90 percent of the basis of the film has been recovered through depreciation.</p> <p>For the past, taxpayers may elect to take a 40 percent compromise credit for all their films, regardless of the actual useful life or foreign use of any particular film. Alternatively, taxpayers may determine their investment credit on a film-by-film basis.</p>	<p>Generally, same as the House bill except as follows:</p> <div><p>(1) Clarifies that the investment credit is to be available for educational films as well as entertainment films.</p><p>(2) Deletes a restriction, imposed under the House bill, on investment credit carryovers in the case of taxpayers electing the 40 percent method only for years prior to 1971.</p><p>(3) Permits participations to be included in the credit base of an 80 percent or more U.S. produced film, but not in excess of (a) \$1 million with respect to any one individual for any one film and (b) not in excess of the lesser of (i) 50 percent of participations qualifying under rule (a) or (ii) 25 percent of the production costs of the taxpayer's films for the year. The House bill excludes participations from the credit base.</p><p>(4) Provides that any taxpayer who filed a petition in a court by January 1, 1976, may have his investment credit for prior years determined under present law rather than under the rules of the bill; under the House bill only taxpayers who had received a final judgment were permitted to elect out.</p></div> <p>Effective date—Same as the House bill.</p> <p>Revenue effect—Loss of \$45 million in fiscal 1977, \$20 million in fiscal 1978, and \$5 million in fiscal 1981.</p>	

TITLE VIII—CAPITAL FORMATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>59. Investment credit for certain vessels (Sec. 806 of Senate amendment, p. 164)</p>	<p>Provides deferral of taxes on income deposited into a capital construction fund established under section 21 of the Merchant Marine Act of 1970 for the construction of certain vessels. When the funds are withdrawn to purchase a qualified vessel, there is no tax basis in the purchased vessel to the extent of the withdrawal. This reduces the amount of investment credit available on the purchased vessels.</p>	<p>No provision.</p>	<p>Provides that the amount of an investment tax credit is not to be reduced because of a deposit in, or qualified withdrawal from, a capital construction fund.</p> <p><i>Effective date</i>—Applies to investment credits claimed for taxable years beginning after Dec. 31, 1969. (Effective date changed in floor amendment by Senator Magnuson, adopted 43-37, from Dec. 31, 1975, to Dec. 31, 1969.)</p> <p><i>Revenue effect</i>—Loss of \$26 million in fiscal 1977, \$23 million in fiscal 1978, and \$45 million in fiscal 1981.</p>	
<p>60. Small fishing vessel construction reserves (Sec. 808 of Senate amendment, p. 175) (Floor amendment by Senator Hathaway, adopted by voice vote)</p>	<p>Ships must be of 5 tons or more to be eligible for the capital construction fund.</p>	<p>No provision.</p>	<p>Reduces weight limit to 2 tons or more for a commercial fishing vessel to be eligible for the capital construction fund.</p> <p><i>Effective date</i>—Applies after the date of enactment of the bill.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	
<p>61. Net operating loss carryovers—election (Sec. 807 (a) of Senate amdt., p. 165)</p>	<p>Taxpayers in general are allowed to carry a business net operating loss back to the preceding 3 years and forward to the 5 years following the year of the loss. Differing carryback and/or carryback periods are allowed for certain specific types of taxpayers and certain types of losses.</p>	<p>No provision.</p>	<p>Taxpayers who are presently allowed a 3-year carryback (namely business taxpayers in general, regulated transportation corporations and insurance companies) may elect to convert their carryback period into 3 additional carryover years. This extended carryover election will also apply to losses which occur during the carryover period for the loss to which the election first applies, but may be revoked for subsequent losses.</p> <p><i>Effective date</i>—Applies to net operating losses incurred in tax years ending in 1976 or later.</p> <p><i>Revenue effect</i>—No revenue loss until 1982.</p>	

TITLE VIII—CAPITAL FORMATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
62. Limitations on trafficking in net operating loss carryovers (Sec. 807(b) of Senate amdt., p. 166)	<p>Where new owners buy over 50 percent of the stock of a loss corporation during a 2-year period, its loss carryovers from prior years are allowed in full if the company continues to conduct its prior trade or business. (It may add new businesses, however.) If the same business is not continued, loss carryovers are completely lost.</p> <p>In the case of a tax-free reorganization, loss carryovers are allowed on a sliding scale. If the former owners of the loss company receive 20 percent or more of the stock of the acquiring company, the loss carryovers are allowed in full. For each percentage point less than 20 which the former owners receive, the loss carryover is reduced by 5 percentage points. It is immaterial whether the business of the loss company is continued (or not) after the reorganization.</p>	No provision.	<p>Generally tightens the technical rules in present law further to prevent "trafficking" in loss carryovers.</p> <p>Parallel rules are provided for taxable acquisitions and taxfree acquisitions of a loss company. In both cases the test for carryovers will no longer depend on whether the loss company continues its same trade or business. The required continuity of ownership by the former owners of a loss company is increased to 40 percent. For each percentage point less than 40 which the owners of the loss company get (or retain), the allowable loss carryover will be reduced by 2½ percentage points. These rules apply both where new owners take over a loss company in a taxable purchase of stock or in a taxfree reorganization. Several technical revisions to present law are also made:</p> <p>(1) The transactions which trigger the loss limitations are expanded.</p> <p>(2) The limitations can no longer be escaped by using a controlled subsidiary of a profit company to acquire a loss company.</p> <p>(3) The period in which taxable purchases of a loss company's stock may bring the limitations into play is increased from 2 to 3 years.</p> <p>(4) The losses affected by the limitations are broadened to include operating losses in the acquisition year itself (under certain conditions).</p> <p>(5) In a reorganization the former owners of a loss company must receive a participating stock interest in the acquiring company (nonvoting preferred stock will not be sufficient).</p> <p>(6) The limitations will now apply to stock-for-stock ("B") reorganizations not now covered.</p>	<p><i>Effective date</i>—Generally for reorganizations and other changes in stock ownership occurring after the date of enactment.</p> <p><i>Revenue effect</i>—Gain is negligible.</p>

TITLE VIII—CAPITAL FORMATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
63. Credit for artist's dena- tions of own work to char- itable organizations (Sec. 809 of Senate amend- ment, p. 175; floor amendment by Sen. Jav- its, adopted by voice vote.)	An artist may deduct only the basis (generally, the out-of-pocket expenses) in art works which he creates and which he contributes to charities.	No provision.	Allows an artist to claim a 30-percent credit for the full value (up to \$35,000 value an- nually) of charitable contributions of his own literary, musical or artistic compositions. Credit may not exceed tax on related income (aggregated over all prior years) from sale of art works; nor may it offset in any one year the greater of \$2,500 of tax liability or 50 percent of income tax liability. Contribu- tions in excess of credit may be carried for- ward 5 years. No credit is allowed for works produced as a public employee. <i>Effective date</i> —Applies to taxable years begin- ning after December 31, 1976. <i>Revenue effect</i> —Loss of \$4 million in fiscal 1978, and \$5 million per year thereafter.	

TITLE IX—SMALL BUSINESS PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action
64. Continuation of changes in corporate tax rates and increase in surtax exemption	<p>Prior to the 1975 Tax Reduction Act, corporate income was subject to a 22 percent normal tax and 26 percent surtax, with a surtax exemption of \$25,000. The Tax Reduction Act and the Revenue Adjustment Act increased the surtax exemption to \$50,000 and reduced the normal tax to 20 percent of the first \$25,000 of taxable income. These provisions expired on July 1, 1976.</p>	<p>Extends the reduction in corporate tax rate and the increase in the surtax exemption through December 31, 1977.</p>	<p>Makes permanent the changes in corporate tax rates and increase in surtax exemption. In addition, applies these changes to mutual insurance companies.</p>	
(Sec. 901 of both bills; p. 169 of House bill and p. 180 of Senate amendment)			<p><i>Effective date</i>—Effective generally for taxable years ending after December 31, 1975. Effective for mutual insurance companies for taxable years ending after December 31, 1974.</p> <p><i>Revenue effect</i>—Loss of \$1.676 million in fiscal 1977, \$2,221 million in fiscal 1978, and \$2,471 million in fiscal 1981.</p>	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME

Item	Present law	House bill	Senate amendment	Conference action
A. Provisions Affecting. Individuals Abroad				
65. Income earned abroad by U.S. citizens living or residing abroad (Sec. 1011 of House bill, p. 170; sec. 1011 of Senate amendment, p. 188)	<p>1. U.S. citizens working abroad may exclude from their income up to \$20,000 of earned income (\$25,000 in some cases). U.S. citizens may claim credit directly against U.S. tax for the foreign taxes paid on the excluded earned income.</p> <p>2. Any employee is entitled to exclude from gross income lodging furnished by the employer on the business premises if the employee is required to accept it as a condition of employment.</p>	<p>1. Generally phases out the exclusion over 4 years (except for employees of U.S. charitable organizations who work abroad), and provides in lieu thereof a deduction for individuals who incur expenses in providing education for their children and an exclusion for the value of employer-supplied municipal-type services. Individuals working on foreign construction projects do not have exclusion reduced during phaseout period. The amount of foreign taxes paid on income which is eligible for the exclusion would not be allowed as a foreign tax credit against U.S. income tax.</p> <p>2. No provision.</p>	<p>1. Retains earned income exclusion subject to following modifications: (1) foreign taxes paid on income which is eligible for the exclusion would not be allowed as a foreign tax credit against U.S. income tax (same as House bill); (2) income derived beyond the income eligible for exclusion would be subject to U.S. tax at the higher rate brackets which would apply if the excluded income were also subject to tax; and (3) income earned abroad which is received outside of the country in which earned in order to avoid tax in that country would be ineligible for the exclusion.</p> <p>2. Provides an exclusion for certain housing which is either furnished to the employee by the employer or reimbursed by the employer.</p>	<p>15,000 across board T pro low for charitable work</p>
		<p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$9 million in fiscal 1977, \$21 million in fiscal 1978, and \$48 million in fiscal 1981.</p>	<p><i>Effective date</i>—Same as House bill.</p> <p><i>Revenue effect</i>—Gain of \$33 million in fiscal 1977, \$28 million in fiscal 1978, and \$28 million in fiscal 1981.</p>	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>A. Provisions Affecting Individuals Abroad—Continued</p> <p>66. Income tax treatment of nonresident alien individuals who are married to citizens or residents of the United States (Sec. 1012 of House bill p. 187; sec. 1012 of Senate amendment, p. 187)</p>	<p>1. A joint return may not be made by a husband and wife if either one of them at any time during the taxable year was a nonresident alien.</p>	<p>1. A U.S. citizen or resident married to a nonresident alien would be allowed to file a joint return provided that an election is made by both individuals to be taxed on their worldwide income.</p>	<p>1. Same as House bill.</p>	
	<p>2. If husband and wife are subject to community property rules, one-half of the earned income of one spouse is treated as being the income of the other spouse and is not subject to U.S. taxation if the other spouse is a nonresident alien and if the income is from foreign sources.</p>	<p>2. Where the election to be taxed on worldwide income is not made, certain community property laws are to be made inapplicable for income tax purposes.</p>	<p>2. Same as House bill.</p>	
<p>3. Nonresident aliens are generally required to file estimated tax returns by April 15 of the year in question, although they have until June 15 to file the income tax return for the previous year.</p>		<p>3. No provision.</p>	<p>3. In the case of nonresident alien individuals not subject to wage withholding, the due date for filing the estimated tax return is not to be any earlier than the due date for the tax return for the previous year.</p>	
		<p><i>Effective date</i>—Applies to taxable years ending on or after December 31, 1975, in the case of an election, otherwise to taxable years beginning after December 31, 1975.</p>	<p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1976, except that individuals would be allowed to file joint returns for all open years beginning after December 31, 1971.</p>	
<p>67. Foreign trusts having one or more United States beneficiaries to be taxed currently to grantor (Sec. 1013 of House bill, p. 194; sec. 1013 of Senate amendment, p. 195)</p>	<p>1. A trust is taxed in a manner similar to nonresident alien individuals if it is considered a foreign trust. It is not taxed on its foreign source income, but distributions to a U.S. taxpayer from a foreign trust are taxed basically in the same manner as distributions from a domestic trust.</p>	<p>1. A U.S. person who transfers property to a foreign trust is treated as the owner of such property and taxed currently for each taxable year during which such trust has a U.S. beneficiary.</p>	<p>1. Same as House bill, except employee trusts described in Code section 404(a)(4) are excluded.</p>	<p><i>Revenue effect</i>—Loss of \$26 million in fiscal 1977 and \$5 million annually thereafter.</p>
	<p>2. Foreign trust created by a U.S. person must include capital gains (without the sec. 1202 deduction) in distributable net income; however, the beneficiary is entitled to the section 1202 deduction.</p>	<p>2. All foreign trusts must include capital gains (without the sec. 1202 deduction) in distributable net income. However, the undistributed net income remaining as of December 31, 1975, shall be redetermined with the section 1202 deduction.</p>	<p>2. Same as House bill.</p>	<p><i>Effective date</i>—Applies to taxable years ending after December 31, 1976, but only for trusts created after May 21, 1974, and transfers of property as of May 21, 1974. The effective date of the capital gains provision is the same as the House bill.</p>
		<p><i>Effective date</i>—Applies to taxable years ending after December 31, 1975, but only for trusts created after May 21, 1974, and transfers of property after May 21, 1974. However, the provisions dealing with capital gains of foreign trusts apply to taxable years ending after December 31, 1975.</p>		<p><i>Revenue effect</i>—Gain of \$2 million in fiscal 1977 and \$10 million annually thereafter.</p>

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
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A. Provisions Affecting Individuals Abroad—Continued

68. Interest charge on accumulation distributions from foreign trusts
(Sec. 1014 of House bill, p. 200; sec. 1014 of Senate amendment, p. 201)

There is no interest charge on accumulation distributions from a foreign trust.

An interest charge in the form of additional tax is imposed on beneficiaries receiving taxable accumulation distributions from foreign trusts. The additional tax is 6 percent of the tax otherwise imposed with respect to the distribution for the average number of years during which the amounts were earned. No charge is imposed for the period before January 1, 1976.

Effective date—Applies to taxable years beginning after December 31, 1975.

Revenue effect—Gain is negligible.

69. Excise tax on transfers of property to foreign persons to avoid Federal income tax
(Sec. 1015 of House bill, p. 202; sec. 1015 of Senate amendment, p. 203)

An excise tax of 27½ percent is imposed on the amount of the appreciation of stock or securities transferred to foreign entities.

An excise tax of 35 percent is imposed on the amount of the unrecognized appreciation of all property transferred to foreign entities.

Effective date—Applies to transfers made after October 2, 1975.

Revenue effect—Gain is negligible.

B. Amendments Affecting Tax Treatment of Controlled Foreign Corporations

70. Amendment of provision relating to investment in U.S. property by controlled foreign corporations
(Sec. 1021 of House bill, p. 204; sec. 1021 of Senate amendment, p. 206)

U.S. shareholder of a controlled foreign corporation is taxed on the undistributed earnings and profits of the corporation to the extent of the annual increase of its investment in U.S. property. Investment in U.S. property includes the acquisition by a controlled foreign corporation of any tangible property located in the U.S., or stock or obligations of a domestic corporation or a U.S. person (even though unrelated to the investor).

U.S. property is redefined to include only stock and obligations of a U.S. shareholder of the controlled foreign corporation and tangible property which is leased to, or used by, a U.S. shareholder regardless of where used.

Effective date—

1. Applies to taxable years of foreign corporations beginning after December 31, 1974.

2. Election to exclude from the definition of U.S. property investments made in property used on the U.S. continental shelf, retroactive to taxable years of foreign corporations beginning before January 1, 1975.

Revenue effect—Loss is negligible.

Same as House bill, except no charge is imposed for period before January 1, 1977.

Effective date—Applies to taxable years beginning after December 31, 1976.

Revenue effect—Same as House bill.

Same as House bill, except for the addition of an election to recognize gain in lieu of paying the excise tax.

Effective date—Same as House bill.

Revenue effect—Same as House bill.

Excepts from definition of U.S. property in existing law (1) stock or debt of a domestic corporation (other than a U.S. shareholder) which is not 25 percent owned by the U.S. shareholders, and (2) movable drilling rigs when used on the U.S. continental shelf.

Effective date—Applies to taxable years of foreign corporations beginning after December 31, 1975.

Revenue effect—Same as House bill.

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
B. Amendments Affecting Tax Treatment of Controlled Foreign Corporations—Continued				
71. Shipping profits of foreign corporations (Sec. 1024 of House bill p. 210; sec. 1024 of Senate amendment, p. 210)	Tax haven income subject to current taxation includes base company shipping income, except to the extent reinvested in shipping assets.	<div>1. Shipping operations within one country are excluded from base company shipping income if ships are registered within that country and company incorporated there.</div> <div>2. The bill makes it clear that debt obligations are taken into account in determining the amount invested in shipping assets.</div> <div>3. No provision.</div>	<div>1. Same as House bill with minor technical changes.</div> <div>2. No provision.</div> <div>3. Shipping income derived from the transportation of men and supplies from a point in a foreign country to a point offshore (such as on an oil-drilling rig) located on the continental shelf of that country or on the continental shelf adjacent to the continental shelf of that country is excluded from base company shipping income if ship is registered in that country and company is incorporated there.</div>	
		<div><i>Effective date</i>—Applies to taxable years of foreign corporations beginning after December 31, 1975, and to taxable years of U.S. shareholders within which or with which such taxable years of such foreign corporations end.</div> <div><i>Revenue effect</i>—Loss is negligible.</div>	<div><i>Effective date</i>—Same as House bill.</div> <div><i>Revenue effect</i>—Same as House bill.</div>	
72. Agricultural products (Sec. 1025 of House bill, p. 211)	Sales of agricultural products not grown in the U.S. in commercially marketable quantities are not included within the definition of base company sales income.	<div>Sales of foreign-grown agricultural products which differ in grade or type from, and are not readily substitutable for (taking into account consumer preferences), agricultural products grown in the United States in commercially marketable quantities are not included within the definition of base company sales income.</div> <div><i>Effective date</i>—Applies to taxable years of foreign corporations beginning after December 31, 1975, and to taxable years of U.S. shareholders within which or with which the taxable years of the foreign corporations end.</div> <div><i>Revenue effect</i>—Loss of \$14 million in fiscal 1977 and \$10 million on annual basis thereafter.</div>	No provision.	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
C. Amendments Affecting Treatment of Foreign Taxes				
73. Requirement that foreign tax credit be determined on overall basis (Sec. 1031 of House bill, p. 212; sec. 1031 of Senate amendment, p. 211)	Foreign tax credit limitation basis may be determined on either a per-country or an overall (taxpayer must elect the latter).	Repeals the per-country limitation and requires that all taxpayers determine their foreign tax credit limitation on the overall basis. Per-country retained for possession source income. Special transitional rules provided for taxpayers previously on the per-country limitation to permit the carryover of some excess credits from per-country years to overall years.	Same as House bill, except per-country limitation also repealed for possession source income.	
		<i>Effective date</i> —Applies to taxable years ending after December 31, 1975. In the case of certain mining companies, the effective date is delayed for 3 years.	<i>Effective date</i> —Applies to taxable years beginning after December 31, 1975.	
		<i>Revenue effect</i> —Gain of \$51 million for fiscal 1977, \$35 million for 1978 and \$45 million for 1981.	<i>Revenue effect</i> —Gain of \$73 million in fiscal 1977 and \$50 million on an annual basis thereafter.	
74. Recapture of foreign losses (Sec. 1032 of House bill, p. 220; sec. 1032 of Senate amendment, p. 217)	In general, foreign losses reduce U.S. tax on U.S. source income by decreasing the worldwide taxable income on which the U.S. tax is based. In addition, when the business operations in the loss country become profitable, a credit against U.S. tax will be allowed for taxes paid to that country without any recapture of the prior benefits except in the case of foreign oil-related losses.	Extends recapture provisions to apply to all overall foreign losses.	Same as House bill, with minor technical changes, except (1) taxpayer may have more than 50 percent of foreign source income recaptured in any taxable year, and (2) proportionate foreign tax credit disallowance rule deleted.	
		<i>Effective date</i> —Applies to losses sustained in taxable years beginning after December 31, 1975. In the case of losses incurred in U.S. possessions, the effective date is delayed for 5 years.	<i>Effective date</i> —1. Applies to losses sustained in taxable years beginning after December 31, 1975. 2. Not applicable to (a) a loss from the disposition of a debt obligation of a foreign government issued before May 14, 1976, for property located in that country, and (b) a loss suffered subsequent to the effective date but attributable to an economic loss (worthlessness of stock or debt) which actually occurred prior to the effective date.	
		<i>Revenue effect</i> —Gain of \$2 million in fiscal year 1977, \$8 million in 1978, and \$28 million in 1981.	<i>Revenue effect</i> —Same as House bill.	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
C. Amendments Affecting Treatment of Foreign Taxes—Continued				
			Same as House bill, with technical changes.	
75. Treatment of capital gains for purposes of foreign tax credit	<p>The rules as to the netting of long-term and short-term gains and losses in cases where some gains or losses are U.S. source income while others are foreign source are unclear. Foreign tax credit limitations are not adjusted to reflect the lower tax rate on capital gains income received by corporations. The foreign tax credit can be inflated because the source of capital gain income is determined by the place of the sale of the asset, regardless of where used.</p>	<p>The following modifications in the foreign tax credit limitation would be made:</p> <ol style="list-style-type: none">1. Net U.S. capital losses would offset net foreign capital gains.2. In the case of corporations, only 30/48 of the net foreign source gain would be included in the foreign tax credit limitation.3. The gain from the sale or exchange of personal property outside the United States would be considered U.S. source income unless one of three exceptions applies. <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Gain of \$14 million in fiscal year 1977 and by \$10 million annually thereafter.</p>	<p><i>Effective date</i>—Same as House bill, except that the source rule modification would only apply to sales or exchanges made after November 12, 1975.</p> <p><i>Revenue effect</i>—Same as House bill.</p>	
76. Foreign oil and gas extraction income	<p>Foreign taxes which are allowable as a credit with respect to foreign oil and gas extraction income are limited to a percentage of that income (52.8 percent in 1975, 50.4 percent in 1976, and 50 percent in 1977) and may only be used to offset U.S. tax on oil-related income.</p>			No provision.

Effective date—Date of enactment.

Revenue effect—Loss of \$10 million for fiscal 1977, \$10 million for 1978, \$7 million for 1979, and \$3 million for 1980.

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
76. Foreign oil and gas extraction income—Continued				
b. Definition of foreign oil-related income.	Interest from domestic corporations not included in the definition of foreign oil-related income.	No provision.	Definition of foreign oil-related income revised to include interest from a domestic corporation (if the interest is treated as foreign source income because less than 20 percent of such corporation's gross income is derived from U.S. sources).	
			<i>Effective date</i> —Applies to taxable years beginning after December 31, 1976.	
			<i>Revenue effect</i> —Loss of \$40 million in fiscal 1977 and \$90 million in each year thereafter if percentage limitation on extraction tax credits is not reduced from 50 percent to 48 percent (Item (e) below); otherwise, loss of less than \$5 million.	
c. Foreign oil and gas extraction income earned by individuals.	Individuals are subject to same percentage limitations on creditable taxes paid with respect to foreign oil and gas extraction income as those imposed on corporations.	No provision.	The allowable foreign tax credit on foreign oil and gas extraction income for individuals is equal to the average U.S. effective rate of tax on that income (individuals limited to a separate overall foreign tax credit limitation for foreign oil and gas extraction income).	
			<i>Effective date</i> —Applies to taxable years ending after December 31, 1974.	
			<i>Revenue effect</i> —Negligible revenue gain or loss.	
d. Tax credit for production-sharing contracts.	Rev. Rul. 76-215, 1976 I.R.B. No. 23, holds that the contractor under a production-sharing contract in Indonesia is not entitled to a foreign tax credit for payments made by the government-owned company to the foreign government. The IRS has announced that this ruling will apply only prospectively to claims for credits for taxes paid in taxable years beginning after June 30, 1976.	No provision.	Rev. Rul. 76-215 is not to be applicable for taxable years ending in 1977 to amounts paid to foreign governments and designated as taxes under production-sharing contracts entered into before April 8, 1976, for taxable years beginning after June 30, 1976. Credit is limited to 48 percent of the extraction income from the contracts.	
			<i>Effective date</i> —Applies to taxable years beginning on or after June 30, 1976.	
			<i>Revenue effect</i> —One-time loss of \$50 million (\$23 million in fiscal 1977 and \$27 million in fiscal 1978).	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
76. Foreign or land gas extraction income—Continued				
e. Reduction in amount allowed as foreign tax credit on oil extraction income.	Foreign taxes which are allowable as a credit with respect to foreign oil and gas extraction income are limited to 50% of that income on an overall basis for taxable years ending after 1976 and any excess may only be used to offset U.S. tax on other oil-related income.	No provision.	1. The amount of foreign taxes allowable as a credit with respect to foreign oil and gas extraction income is reduced to 48 percent of that income on a per-country basis for taxable years ending after 1976. The definition of extraction income is broadened to include interest from foreign corporations and dividends from domestic corporations, provided the corporations are engaged in oil-extraction activities. 2. Would treat as a royalty rather than a tax any payment made as a tax to a foreign government on income from the extraction, production, or refining of oil, gas, or other related natural resources unless the foreign government imposes a substantially similar tax on income from other activities. (Floor amendment by Senator Hartke, adopted by voice vote.) <i>Effective date</i> —Applies to taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Gain of \$27 million in fiscal 1977 and \$60 million annually thereafter.	
77. Underwriting income (Sec. 1036 of Senate amendment, p. 237).	The source of insurance underwriting income is not specified in the Code.	No provision.	The source of underwriting income would be the place where the risk is located. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Loss is negligible.	
78. Third-tier foreign tax credit when Code section 951 applies (Sec. 1037 of Senate amendment, p. 238.)	If a domestic corporation is required to include in its income amounts under subpart F, a deemed-paid foreign tax credit is available with respect to foreign taxes paid by a first-tier foreign subsidiary (10 percent owned by the domestic corporation) and by a second-tier foreign subsidiary (50 percent owned by the first-tier foreign subsidiary), but, unlike the case for the credit on actual distributions, there is no credit with respect to foreign taxes paid by a third-tier foreign subsidiary.	No provision.	The foreign tax credit under subpart F is made consistent with the credit for actual dividends from second and third-tier foreign subsidiaries. Thus, a credit is allowed for foreign taxes paid by a third-tier foreign subsidiary, and a second-tier or a third-tier need only be 10 percent owned by a prior tier, provided the domestic corporation has at least a net 5 percent ownership in each lower tier. <i>Effective date</i> —Applies with respect to earnings and profits included in income in taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Loss of \$4 million in fiscal 1977, and \$10 million annually thereafter.	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p><i>D. Money or Other Property Moving Into or Out of the United States</i></p> <p>79. Interest on bank deposits earned by nonresident aliens and foreign corporations (Sec. 1041 of House bill, p. 238; sec. 1041 of Senate amendment, p. 246)</p> <p>80. Changes in ruling requirements under Code section 367; certain changes in section 1248 (Sec. 1042 of House bill, p. 238; sec. 1042 of Senate audit, p. 246)</p>	<p>Interest paid to a nonresident alien or foreign corporation from deposits with persons carrying on the banking business is exempt from U.S. tax, but the exemption is due to expire with respect to interest paid after December 31, 1976.</p> <p>1. In certain exchanges relating to the organization, reorganization, and liquidation of a foreign corporation, nonrecognition of a gain is not available unless a ruling that tax avoidance is not present has been obtained from the IRS before the exchange.</p> <p>2. No court review of the ruling is available.</p> <p>3. Certain nonrecognition provisions under existing law allow repatriation of accumulated earnings and profits of a foreign corporation without dividend treatment.</p>	<p>The exemption under present law would be made permanent without any termination date.</p> <p><i>Effective date</i>—Applies to interest paid after December 31, 1976.</p> <p><i>Revenue effect</i>—Loss of \$55 million in fiscal 1977, \$115 million in 1978, and \$145 million in 1981.</p> <p>1. Nonrecognition of gain is not available unless a request for a ruling that tax avoidance is not present is filed within 183 days after the beginning of the exchange in the case of outbound transfers. In the case of all other transfers, regulations are to provide the extent that earnings are to be taken into account as a dividend in order to prevent avoidance of tax.</p> <p>2. Tax Court review of rulings is made available.</p> <p>3. The nonrecognition provisions are modified so that repatriated earnings and profits do not escape dividend treatment.</p> <p><i>Effective date</i>—Applies generally to sales, exchanges, and distributions taking place after October 9, 1975. However, until January 1, 1978, rulings are required on all transfers. In certain transfers not involving U.S. persons which took place between 1962 and 1976, taxpayers are given 183 days after the enactment of the Act to get a ruling.</p>	<p>The exemption under existing law would be extended through December 31, 1979.</p> <p><i>Effective date</i>—Same as House bill.</p> <p><i>Revenue effect</i>—Loss of \$55 million fiscal 1977, \$115 million in 1978, \$125 million in 1979, and \$65 million in 1980.</p> <p>1. Same as House bill with minor technical amendments.</p> <p>2. Same as House bill with minor technical amendments.</p> <p>3. Same as House bill with minor technical amendments.</p> <p><i>Effective date</i>—Same as House bill.</p>	

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
81. Contiguous country branches of domestic life insurance companies (Sec. 1043 of House bill, p. 252; sec. 1043 of Senate amdt., p. 261)	U.S. insurance companies are subject to tax on their worldwide taxable income. They may credit foreign taxes paid against their U.S. tax liability. This can result in a higher overall tax for U.S. companies on their Canadian business than for Canadian companies on their Canadian business in instances where the Canadian tax rate is lower than the U.S. tax rate.	A U.S. mutual life insurance company may elect to account for contiguous country business separately from other business to avoid U.S. taxation on contiguous country income to the extent such income is not repatriated. A company making this election must recognize as gain the net unrealized appreciation on the branch's assets. A domestic stock company selling policies similar to those sold by a mutual company may transfer assets to a contiguous country subsidiary and recognize the net gain on the assets transferred.	<div>The House bill provision is extended to stock companies selling, through contiguous country subsidiaries, policies which are similar to those sold by mutual companies.</div>	
E. Special Categories of Foreign Tax Treatment				
82. Tax treatment of corporations conducting trade or business in Puerto Rico and possessions of the United States (Sec. 1051 of House bill, p. 260; sec. 1051 of Senate amdt., p. 270)	<ol style="list-style-type: none">Corporations operating a trade or business in a possession are entitled to exclude from gross income all income from sources without the United States including foreign source income earned outside the possession if they satisfy an 80-percent source and a 50-percent active trade or business test.Dividends from a possessions corporation are not eligible for the intercorporate dividends received deduction.	<ol style="list-style-type: none">If a corporation derives 80 percent of its gross income from sources within a possession and 50 percent from the active conduct of a trade or business in a possession and makes an election, it will be entitled to a special foreign tax credit equal to the U.S. tax on that income.Dividends from a possessions corporation are eligible for the intercorporate dividends received deduction. <div>Effective date—Taxable years beginning after December 31, 1975.</div> <div>Revenue effect—Gain of \$14 million in fiscal year 1977 and \$10 million on an annual basis thereafter.</div>	<ol style="list-style-type: none">Same as House bill, with minor technical changes, except that disallows Foreign tax credit on Puerto Rican withholding tax on liquidation.Same as House bill. <div>Effective date—Same as House bill, except that it continues to exempt foreign source income earned outside the possession which is derived before October 1, 1976.</div> <div>Revenue effect—Gain of \$6 million in fiscal year 1977 and \$10 million on an annual basis thereafter.</div>	<div>Effective date—Same as House bill.</div> <div>Revenue effect—Loss of \$12 million in fiscal and \$8 million per year thereafter.</div>

TITLE X—CHANGES IN THE TREATMENT OF FOREIGN INCOME—Continued

Item	Present law	House bill	Senate amendment	Conference action
83. Repeal of provisions relating to China Trade Act Corporations (Sec. 1053 of House bill, p. 272; sec. 1053 of Senate amendment, p. 283.)	Special tax benefits granted to China Trade Act corporations and their shareholders generally permitting the corporation and its shareholders to pay no U.S. tax.	Four-year phaseout of provisions permitting special tax treatment for China Trade Act corporations and their shareholders.	Two-year phaseout of provisions permitting special tax treatment for China Trade Act corporations and their shareholders.	
		<i>Effective date</i> —Phaseout applies to taxable years beginning after 1975. <i>Revenue effect</i> —Gain is negligible.	<i>Effective date</i> —Same as House bill. <i>Revenue effect</i> —Same as House bill.	
F. Denial of Certain Tax Benefits on International Boycotts and Bribe-Produced Income				
84. Denial of certain tax benefits on international boycotts and bribe-produced income (Secs. 1061–1066 of Senate amendment, p. 284.)	Taxpayers participating in international boycotts or making illegal payments to officials of foreign governments are not subject to special penalties, but illegal payments to government officials are not deductible.	No provision.	If a taxpayer or a member of its affiliated group participates in an international boycott based on nationality or religion or pays a bribe to a foreign government official, the following tax benefits are denied: (1) Foreign tax credit; (2) Deferral of earnings of foreign subsidiaries; and (3) Deferral of DISC income. Also, the earned income abroad exclusion is denied to an individual whose employer participates in an international boycott. The Secretary is authorized to require the filing of reports and to determine whether a taxpayer has participated in a boycott or has bribe-produced income. Failure to file required reports is subject to criminal penalties. <i>Effective date</i> —Effective with respect to participation in a boycott or the making of an illegal payment 30 days after date of enactment of the Act. <i>Revenue effect</i> —Gain of \$142 million in fiscal 1977 and \$100 million annually beginning in fiscal 1978.	

3 year phase

Item	Present law	House bill	Senate amendment	Conference action
85. Amendments affecting DISC (Sec. 1101 of House bill, p. 274; sec. 1101 of Senate amdt., p. 295)	1. The DISC provisions in effect permit shareholders to defer taxation of up to 50 percent of the export profits allocated to the DISC.	1. Incremental rules are adopted permitting DISC benefits to the extent that current export gross receipts exceed 75 percent of the average for a 3-year moving base period (initially 1972-1974) which moves forward after 1980.	1. Incremental rule adopted limiting DISC benefits to the extent the current export gross receipts exceed 60 percent of the average for 3 out of 4 base period years (initially 1973-1976) which moves forward after 1979 (for agricultural products—see below).	
		2. Small DISC exemption to incremental rule for DISCs having taxable income of \$100,000 or less for a taxable year. Phases out at \$150,000.	2. Same as House bill.	
		3. DISC benefits terminated for agricultural products except those subject to marketing quotas.	3. DISC benefits retained for agriculture products; incremental rules will apply only after 1979 using a 3 out of 5-year base period.	
		4. DISC benefits terminated for military sales except if products are to be used solely for nonmilitary purposes.	4. DISC benefits terminated for military sales unless it is determined that the property is competitive with foreign-manufactured property.	
		5. Timber treated as an agricultural product.	5. Same as House bill.	
	5. DISC benefits are denied for sales of depletable natural resources including timber.	6. Upon the disqualification of a DISC, the accumulated DISC income is recaptured over a period equal to twice the period that the DISC was in existence not to exceed 10 years.	6. Same as House bill.	
	6. Upon the disqualification of a DISC, the accumulated DISC income is recaptured over a period equal to the period that the DISC was in existence not to exceed 10 years.	7. Where DISC benefits with respect to a product terminate, loans to a related supplier may still qualify as a producer's loan.	7. Same as House bill.	
	7. Where DISC benefits with respect to a product terminate, loans to the related supplier would no longer qualify as a producer's loan.	8. No provision.	8. Sale or distribution of DISC stock in certain nontaxable transactions will result in recapture of accumulated DISC income.	
	8. Taxpayer can prevent recapture of DISC benefits by selling or distributing DISC stock in certain nontaxable transactions.	9. No provision.	9. The problem of double counting is eliminated by altering the source rules for distributions to meet qualification requirements.	
	9. The combination of the general deemed distribution rule and the rule prescribing the source of any distribution to meet the 95 percent export receipts requirement can result in a partial double counting of the DISC's taxable income with respect to terminating deferral of taxation to its shareholders.			
				<i>Effective date</i> —Applies to taxable years beginning after December 31, 1976. Certain military products are no longer eligible for DISC benefits for sales made in taxable years beginning after December 31, 1976. Same as House bill.

TITLE XII—ADMINISTRATIVE PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action
86. Public inspection of written determinations by Internal Revenue Service (Sec. 1212 of House bill, p. 333 (Sec. 1201 of Senate amdt., p. 310)	Private letter rulings and other determinations of the IRS have been made public by the courts under the Freedom of Information Act. Certain confidential and other information is exempted from disclosure by the FOIA, but the taxpayer's identity is disclosed. The full impact of the FOIA in this area is still being litigated.		Same as House bill.	
		Fixed contract sales of natural resource products denied DISC benefits under Tax Reduction Act of 1975 are made eligible for DISC benefits for an additional 5-year period, March 17, 1975 until March 18, 1980.		
		<i>Revenue effect</i> —Gain of \$500 million in fiscal 1977, \$598 million in 1978, and \$694 million in 1981.		
		IRS determinations issued pursuant to a request made after September 24, 1975, would be made public, after deletion of certain information. Deleted material includes commercial or financial information, the disclosure of which could cause material financial harm; trade secrets; classified matter; information exempted by statute; bank regulation information and matters of personal privacy. The taxpayer's identity would be deleted only from audit-type determinations and required rulings.		
		Prior determinations, issued after July 4, 1967, and requested before September 25, 1975, would be made public, but with identifying details deleted. Prior determinations are made public contingent upon funds being appropriated to the IRS for the purpose, but not until 6-months' public notice is given that they will be made public. (Written determinations issued before July 5, 1967, would not be made public.)		
				Determinations requested before November 1, 1976, would be made public, except for certain required rulings, etc. Disclosure is contingent upon funds being appropriated to the IRS for the purpose, but not until 3-months' public notice is given. Rules are established for the order in which prior determinations will be released, with the more recent determinations given priority.
				If the IRS receives a communication concerning a pending request for a determination from anyone outside the IRS other than the taxpayer, the contact will be noted, or "flagged", on the determination when it is made public. Any person may file suit and learn the identity of the taxpayer, if the Tax Court finds evidence that an impropriety occurred or undue influence was exercised with respect to the determination. The court could also order disclosed material previously deleted.
				Same as House bill, with technical modifications.
		Establishes procedures for resolution of disputes regarding deletion of information before release of a determination, including court actions to restrain disclosure and to obtain additional disclosure.		

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
87. Disclosure of returns and return information (Sec. 1202 of amdt., p. 329)				
a. In general	<p>Tax returns are "public records", but they are generally open to inspection only under regulations or under executive orders. Additionally, the statute provides a number of specific situations in which tax returns can be disclosed.</p>		<p>Provides that a determination shall not be used as a precedent by any person in any case.</p> <p>No provision.</p>	<p>The Secretary may determine precedential effect by regulations.</p> <p>Creates a civil remedy for intentional or willful failure of the IRS to make required deletions or to follow the procedures of this section, including minimum damages of \$1,000 plus costs. Allows IRS collection of fees for search and duplication costs in making information available on request. Establishes rules for IRS records disposal.</p> <p>Provides that these rules would be exclusive procedures with respect to disclosure of deletions.</p>
		<p><i>Effective date</i>—Effective on date of enactment.</p>		<p><i>Effective date</i>—Effective on November 1, 1976.</p>
b. Definition of returns and return information	<p>In general, "returns" are defined in the regulations as including information returns, schedules, lists, and other written statements filed with the IRS which are supplemental to or become a part of the return and other records, reports, information received orally or in writing, factual data, documents, papers, abstracts, memoranda, or evidence taken, or any portion thereof relating to returns and schedules, etc.</p>	<p>No provision.</p>		<p>Returns and return information are to be confidential and not subject to disclosure except as specifically provided by statute.</p> <p>"Return" is defined to mean any tax or information return, declaration of estimated tax or claim for refund which is required or permitted to be filed with respect to any person. It also includes any amendment, supplemental schedule or attachment, filed with the tax return, information return, etc.</p> <p>"Return information" is defined as any data pertaining to a taxpayer received by or prepared by the Secretary with respect to a return. Information as to whether a taxpayer's return was, is being, or will be examined is also to be considered return information.</p> <p>Data which is in a form which cannot be associated with or otherwise identify a particular taxpayer will not constitute return information. (Floor amendment by Sen. Haskell, adopted by voice vote.)</p>

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
87. Disclosure of returns and return information—Cont.				
c. Disclosure to Congress	<p>Congressional committees are classified in three categories for disclosure purposes. The tax committees may inspect tax information in executive session. Select committees of the House and Senate may inspect tax information in executive session if specifically authorized to do so by a resolution of the appropriate body. Standing and select committees may inspect tax information under an executive order issued by the President for the committee in question and on the adoption of a resolution (by the full committee) authorizing inspection.</p>	<p>No provision.</p>	<p>The tax-writing committees, upon written request of their respective chairmen, may have access to returns and return information in executive session. The Chief of Staff of the Joint Committee on Internal Revenue Taxation may have access to returns and return information.</p> <p>Nontax committees are to be furnished returns and return information in executive session upon (1) a committee action approving the decision to request such returns, (2) an authorizing resolution of the House or Senate, as the case may be, and (3) a written request by the Chairman of the committee. The resolution of the appropriate body authorizing these committees to obtain returns or return information must specify the purpose for inspection and that inspection was to be made only if there was no alternative source of information reasonably available to the committee. The committees, through the committee Chairman and ranking minority member, can designate no more than 4 agents (2 majority and 2 minority) to inspect the returns or return information requested.</p>	
	<p>The tax committees and select committees authorized to inspect tax information may submit "any relevant or useful" information obtained to the House or Senate.</p>		<p>The tax-writing committees may submit relevant tax information to the Senate or House, as the case may be. The nontax-writing committees may submit such information to the Senate or House sitting in executive session. The Joint Committee on Internal Revenue Taxation or its Chief of Staff may submit tax information to the Committee on Ways and Means or to the Committee on Finance sitting in executive session.</p>	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
87. Disclosure of returns and return information—Cont.				
d. White House (and other Federal agencies)	<p>An existing executive order permits so-called "tax checks" and inspection of tax returns by the President and certain designated White House employees. Requests for tax checks and inspection are to be in writing and signed by the President personally.</p>	<p>No provision.</p>	<p>Disclosure of returns and return information can be made to the President and/or to certain named employees of the White House Office, upon the written request of the President, signed by him personally. A request is to specify, among other things, the reason disclosure is requested. The President (or a duly authorized representative of the Executive Office) and the head of a Federal agency also may make a written request for a "tax check" with respect to prospective employees. The "tax check" is limited to the inquiry as to whether for the last 3 years an individual has filed income tax returns, has failed to pay any tax within 10 days after notice and demand, has been assessed a negligence penalty, has been or is under any criminal tax investigation (and the results of such investigation), or has been assessed a civil penalty for fraud.</p> <p>The President and the head of any agency requesting returns and return information under this section will be required to file annually a confidential report with the Joint Committee on Internal Revenue Taxation setting forth the taxpayers, the returns or return information involved, and the reason for requesting such returns or return information. However, the President will not be required to report on requests pertaining to current employees of the executive branch. The reports will be maintained by the Joint Committee on Internal Revenue Taxation for a period not exceeding 2 years unless, within that period of time, the Joint Committee on Internal Revenue Taxation determines that a disclosure to the Congress is necessary.</p>	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
87. Disclosure of returns and return information—Cont. <div>e. Civil and criminal tax cases</div>	<p>Tax returns and other tax information of any taxpayer may be furnished upon request without written application to U.S. Attorneys and Justice Department attorneys in civil or criminal tax cases referred by the IRS to the Justice Department for prosecution or defense. Where the Justice Department is investigating a possible violation of the civil or criminal tax laws and the matter has not been referred by the IRS, a Justice Department attorney or U.S. attorney may obtain tax information upon written application where it is "necessary in the performance of his official duties".</p> <p>The Justice Department can obtain the returns of potential witnesses and third parties. Also, the IRS will answer an inquiry from the Justice Department as to whether a prospective juror has been investigated by the IRS.</p>	<p>No provision.</p>	<p>The Justice Department will continue to receive returns and return information with respect to the taxpayer whose civil or criminal tax liability is at issue. Written request is required in cases other than refund cases and cases referred by the IRS.</p> <p>The return or return information of a third party will be disclosed to the Justice Department in the event that the treatment of an item reflected on his return is or may be relevant to the resolution of an issue of the taxpayer's liability under the Code. The return or return information of a third party will also be disclosed to the Justice Department where the third party's return or return information relates or may relate to a transaction between the third party and the taxpayer whose tax liability is or may be at issue and the return information pertaining to that transaction may affect the resolution of an issue of the taxpayer's liability. Disclosure of a third party return or return information will be made only pursuant to written request, except for refund cases and cases referred to Justice by the IRS.</p> <p>A third party return may also be disclosed in a court proceeding, subject to the same item and transactional tests described above, except that the items and transactions must have a direct relationship to the resolution of an issue of the taxpayer's liability.</p> <p>In tax cases, the Justice Department and the taxpayer whose liability is at issue will be allowed to inquire of the IRS as to whether a prospective juror has been under an audit or investigation by the IRS.</p>	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
87. Disclosure of returns and return information—Cont.	f. Nontax criminal cases			
	<p>A U.S. Attorney or an attorney of the Department of Justice may obtain tax information in any case "where necessary in the performance of his official duties". This may be obtained on written application, giving the name of the taxpayer, the kind of tax involved, the taxable period involved, and the reason inspection is desired. The application is to be signed by the U.S. Attorney involved or by the Attorney General, Deputy Attorney General, or an Assistant Attorney General. Tax information obtained by the Justice Department may be used in proceedings conducted by or before any department or establishment of the Federal Government or in which the United States is a party.</p> <p>The IRS also will answer an inquiry from the Justice Department as to whether a prospective juror has been investigated by the IRS.</p>	No provision.		<p>Tax information could be disclosed to the Justice Department and other Federal agencies for nontax criminal purposes only by order of a U.S. District Court. The order would be issued upon a showing (1) that there is probable cause to believe, based upon information believed to be reliable, that a specified criminal act has been committed, (2) that there is reason to believe that the information contained in the return is directly probative of the commission of the crime, and (3) that the information sought cannot reasonably be obtained from any other source. Only those parts of the return determined by the Court to be necessary to the investigation or prosecution would be subject to disclosure.</p>
g. Nontax civil matters				
	<p>A U.S. Attorney and officials of other Federal agencies may obtain tax information in nontax civil cases in the same manner and to the same extent as in nontax criminal cases.</p>	No provision.		<p>The IRS would, either upon its own initiative or pursuant to written request, be authorized to disclose in writing to the Justice Department or any other Federal agency, information including the possible violation of a Federal criminal law, which is received from sources other than the taxpayer and his representatives.</p> <p>Disclosure of returns and return information could not be made to the Justice Department or other Federal enforcement agencies in civil cases except in those instances where it was defending the United States in a suit involving a renegotiation of contracts previously determined by the Renegotiation Board.</p> <p>Disclosure would be allowed to Treasury personnel (other than employees of the IRS) of returns or return information for purposes of tax administration.</p>

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>87. Disclosure of returns and return information—Cont.</p> <p>h. General Accounting Office (Committee amendment modified by a floor amendment by Senator Ribicoff, adopted by voice vote)</p>	<p>The GAO does not have independent authority to inspect tax returns. It does have access to tax returns when it audits IRS operations as agent of the Joint Committee on Internal Revenue Taxation.</p>	<p>H.R. 8948 (reported by the Government Operations Committee and passed by the House) would specifically authorize the GAO to conduct audits of the IRS and the Bureau of Alcohol, Tobacco and Firearms. The bill would permit GAO to have access to any tax returns and tax records necessary to conduct the audits.</p>	<p>The GAO could initiate audits of the IRS on its own or at the request of individual Members or committees other than the tax writing committees. GAO would notify the Joint Committee on Internal Revenue Taxation of the subject matter of the planned audit and any plans for inspection of income tax returns. GAO could proceed with its planned audit unless the Joint Committee, by a two-thirds vote of its members, vetoes the GAO audit plan within 30 days of first receiving notice of the proposed audit from GAO.</p>	
<p>i. Statistical use</p>	<p>The Census Bureau, the Bureau of Economic Analysis, the Federal Trade Commission, and the Securities & Exchange Commission are authorized to use tax returns and return information for statistical purposes.</p>	<p>No provision.</p>	<p>Census, the BEA, the FTC, and non-IRS Treasury personnel could obtain tax returns and limited return information for statistical and research purposes. The BEA and the FTC would only receive corporate tax information. Publication of statistical studies identifying any particular taxpayer is prohibited.</p>	
<p>j. Other agencies—inspection on a general basis</p>	<p>Several agencies may generally inspect tax information for qualified purposes without a specific written request. Inspection of tax information on a general basis is made most often by HEW, the Renegotiation Board, and the FTC.</p>	<p>No provision.</p>	<p>Limited disclosures on a general basis would be permitted to the Social Security Administration, the Railroad Retirement Board, the Department of Labor, the Pension Benefit Guaranty Corporation, and the Renegotiation Board in certain limited situations where the return information is directly related to programs administered by the agency in question.</p>	
<p>k. State and local governments</p>	<p>On the written request of the State Governor, tax returns may be inspected by State tax officials for purposes of administering the State's tax laws. Tax information may also be obtained by the States for local governments to be used in administering the local tax laws.</p>	<p>No provision.</p>	<p>Federal tax returns and return information may be disclosed to State tax officials solely for use in administering the State's tax laws. The tax information would not be available to the State Governor or any other non-tax personnel, or to local governments. No disclosure may be made to any State and no State may require taxpayers to attach to, or include in, State tax returns a copy of any portion of the Federal return (or any information reflected on the Federal return) unless the State adopts provisions of law by December 31, 1978 protecting the confidentiality of the Federal returns or return information.</p>	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
l. Taxpayers with a material interest	Income tax returns presently are open to certain persons with a material interest in those returns. For example, returns are open to the filing taxpayer, trust beneficiaries, partners, heirs of the decedent, etc.	No provision.	Persons with a material interest would continue to have the right to inspect returns and, where appropriate, return information to the same extent as provided under current regulations. Return information (in contrast to "returns") could be disclosed to persons with a material interest only to the extent the IRS determines this would not adversely affect the administration of the tax laws.	
m. Miscellaneous disclosures	Several provisions of the regulations allow the disclosure of tax information for miscellaneous administrative and other purposes. In other cases, the statute specifically requires public disclosure of certain types of returns (e.g., applications for exempt status by organizations).	No provision.	Returns would continue to be open to public inspection in those situations where public disclosure is provided for in present law. Limited disclosure of returns and return information would be permitted in some, but not all, of the miscellaneous situations where disclosure is permitted under present law.	
n. Procedures and records concerning disclosure	Several different offices of the IRS have the responsibility for approving the disclosure of tax information to particular agencies. The IRS presently maintains records concerning disclosure, but the type of records maintained are not standardized as between, e.g., Service Centers, and a complete inventory of records is not maintained.	No provision.	In those cases in which disclosure or inspection of returns or return information would be permitted, it would be permitted only at the times, in the manner, and at the places prescribed by regulations. The IRS, and each Federal and State agency receiving tax information, would be required to maintain a standardized system of permanent records on the use and disclosure of returns and return information.	
o. Safeguards	Except for the general criminal penalty for unauthorized disclosure, the tax law does not provide rules for safeguarding tax information disclosed by the IRS to other agencies. The IRS has no authority to audit the safeguards established by other agencies or to stop disclosure to other agencies that do not properly maintain safeguards.	No provision.	No tax information would be furnished by the IRS to another agency (including commissions, States, etc.) unless the other agency complies with a comprehensive system of administrative, technical, and physical safeguards designed to protect the confidentiality of the returns and return information. In the event of an unauthorized disclosure by the other agency or its failure to maintain adequate safeguards, the IRS could (subject to an administrative appeal procedure) terminate disclosure to that agency.	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
p. Reports to Congress	Since 1971, the Joint Committee on Internal Revenue Taxation has received from the IRS a semi-annual report on disclosure of tax information.	No provision.	<p>The IRS would be required to make a confidential report to the Joint Committee each year on all requests (and the reasons therefor) received for disclosure of tax returns or return information. The report would include, as a separate section to be publicly disclosed, a listing of all agencies receiving tax return information, the number of cases in which disclosure was made to them during the year, and the general purposes for which the requests were made. In addition the IRS would be required to file a quarterly report with the tax committees regarding procedures and safeguards followed by recipients of returns and return information.</p>	
q. Enforcement	Unauthorized disclosure of a Federal income tax return or financial information appearing thereon by a Federal or State employee is a misdemeanor punishable by a fine of up to \$1,000 or imprisonment of up to one year, or both. It is also a misdemeanor punishable in the same manner for any person to print or publish an income return or financial information appearing therein.	No provision.	<p>The criminal violation of the disclosure rules would become a felony punishable by a fine of up to \$5,000 and imprisonment of up to 5 years, or both. It would also be a felony, subject to the same penalties, for any person willfully to receive returns or return information as a result of an offer by that person to exchange an item of material value for the unauthorized disclosure. A civil remedy is provided for any taxpayer damaged by any unlawful disclosure of returns or return information.</p>	
88. Income tax return preparers	Tax return preparers must sign returns they prepare, but no penalties are provided for failure to sign. Preparers are subject to criminal fraud penalties of fines up to \$5,000 and 3 years' imprisonment for willfully aiding or assisting in the preparation of a fraudulent return. (Also, preparers are subject to penalties for improper disclosure of tax return information.)	Any person who prepares a return or claim for refund for compensation must meet specific disclosure requirements and is subject to penalties for negligent or fraudulent preparation of returns. Injunctions may be sought against preparers engaging in certain specified practices.	<p><i>Effective date</i>—The above disclosures provisions (a)-(q) are effective as of January 1, 1977.</p> <p>Same as House bill with several modifications, including an exception for preparers of refund claims filed as a result of an IRS audit; authorization for IRS to modify annual reporting requirements, provided detailed records and information are available and accessible to Service. Also, the injunction provision is modified to establish more specifically the practices against which injunctive relief may be obtained. (A separate Senate amendment gives States and local governments broader access to social security account numbers and employer identification numbers; see item 101.)</p>	

Effective date—Applies to documents prepared after December 31, 1976.

Effective date Applies to documents prepared after December 31, 1975.

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
89. Jeopardy and termination assessments (Sec. 1209 of House bill, p. 321) (Sec. 1204 of Senate amdt., p. 398)	No court or administrative review is made of appropriateness of a jeopardy or termination assessment. No restrictions are placed on sale of property seized pursuant to one type of jeopardy assessment. A termination assessment creates a "deficiency" and presumably short taxable years.	Provides expedited Tax Court review of the appropriateness of jeopardy and termination assessments (and amount thereof). Provides restrictions on sale of seized property until this review is completed.	Same as House bill with several modifications. Requires IRS to furnish taxpayer with basis for jeopardy or termination assessment within 5 days. Provides for administrative review within 15 days. Taxpayer may then obtain an expedited <i>de novo</i> determination of reasonableness of the assessment by U.S. District Court. Commissioner has burden of proof on whether it is reasonable for jeopardy or termination assessment to stand, but taxpayer has burden of proof on reasonableness of amount assessed. Provides for notice of deficiency to taxpayer only after close of normal taxable year and for no closing or reopening of taxable year. Same restrictions on sale of seized property for jeopardy assessments as House bill; restrictions broadened in case of termination assessments.	
90. Administrative summons (Sec. 1211 of the House bill, p. 328) (Sec. 1205 of Senate amdt., p. 409)	IRS has authority during tax investigations to examine books and records, including records held by third parties, as well as records held by the taxpayer. Where the summons is served on a person who is not the taxpayer, the party summoned may challenge the summons on certain grounds. However, there is no legal requirement that the taxpayer (or any other party) to whose business or transactions the summoned records relate be informed that a third party summons has been served.	Generally, in the case of a third party summons, the taxpayer (or other person to whom the summoned records pertain) would receive notice of the summons from the Service at the time of its issuance and would have the right to stay compliance by notifying the person summoned within 14 days not to comply with the summons. The Service would then be required to seek enforcement of the summons in a Federal court and the taxpayer would have standing to challenge such enforcement. Notice would not be required in the case of an administrative summons to a bank issued in connection with IRS collection activities.	<i>Effective date</i> —Applies to assessments where notice and demand takes place after Dec. 31, 1976. Generally similar to the House bill, except: (1) permits the Service a 3-day grace period to mail notice to the taxpayer; (2) provides for suspension of the criminal statute of limitations (as well as the civil statute, which is suspended under the House bill) where the summons is protested by the taxpayers; (3) suspends the notice requirement where a summons is issued solely to determine if records exist or where notice may result in a material interference in an investigation; (4) contains a provision providing for reimbursement of witness costs in accordance with regulations.	<i>Effective date</i> —Effective for summons issued after Dec. 31, 1976.

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
91. Assessments in case of mathematical or clerical errors (Sec. 1203 of House bill, p. 308) (Sec. 1206 of Senate amdt., p. 417)	Where a tax deficiency results from a mathematical error, the taxpayer does not have a right to appeal to the Tax Court as provided in other cases. In practice, the Service allows the taxpayer time to explain and substantiate a claim that there is no error. Mathematical errors include 5 general categories of mistakes, only one of which literally involves arithmetic miscalculations.	Five sets of mathematical or clerical errors are defined, and a procedure and timetable are spelled out before the Service may assess a deficiency. Under the procedure, the taxpayer must be given an explanation of the error and time to file a request for abatement of the assessment. The Service may not assess a deficiency before the taxpayer has agreed to it or the specified period has expired.	Modifies the House provision by allowing 60 days for the taxpayer to file a request for abatement. If such a request is filed, the Service must abate the assessment and may assert a deficiency.	
92. Withholding State income taxes from military personnel (sec. 1205 of House bill, p. 315) (sec. 1207 (a), of Senate amdt., p. 422)	Federal withholding of State income taxes from military personnel is prohibited.	The provision covers: (1) arithmetic errors; (2) errors in transferring amounts on the tax forms; (3) missing schedules or forms; (4) inconsistent errors and computations; and (5) entries that exceed statutory limitations.		
93. Withholding of State or local income tax from members of the National Guard or Ready Reserve (sec. 1206 of House bill, p. 316) (sec. 1207 (b) of Senate amdt., p. 423)	Such withholding by the Federal Government is prohibited.	The timetable allows (1) the taxpayer 90 days from date of notice to file a request for abatement, (2) the Service 60 days to abate or renew the assessment, and (3) another 30 days for the taxpayer to respond again.		
		<i>Effective date</i> —Applies to returns filed after Dec. 31, 1975.	<i>Effective date</i> —Applies to returns filed after Dec. 31, 1976.	
		Provides Federal withholding of State income taxes where requested by a member of the military.	Same as House bill except that withholding is mandatory rather than voluntary.	
		<i>Effective date</i> —To be implemented within 120 days of enactment.	<i>Effective date</i> —Same as the House bill.	
		Requires the Federal Government to withhold State and local income taxes from the National Guard or Ready Reserve when they are paid for regular training.	Same as the House bill.	
		<i>Effective date</i> —To be implemented within 120 days of the date of enactment.	<i>Effective date</i> —Same as the House bill.	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
94. Voluntary withholding of State income taxes from Federal employees (sec. 1207(c) of Senate amdt., p. 423)	Federal withholding of State income taxes from Federal employees in States where withholding is voluntary is prohibited.	No provision.	Permits Federal withholding of State income taxes from Federal employees in States where it is voluntary when employees request it. <i>Effective date</i> —To be implemented within 120 days of date of enactment.	
95. Definition of city for purposes of withholding (sec. 1207(d) of Senate amdt., p. 424)	(This provision has been enacted into law, P.L. 94-358.)	No provision in tax reform bill, but approved in a separately passed House bill, H.R. 10572.	Modifies definition of city for withholding purposes.	
96. Withholding tax on certain gambling winnings (sec. 1207 of House bill—p. 317) (sec. 1207e of Senate amdt., p. 425)	Withholding of Federal income tax from gambling winnings is not required although information reports must be submitted on winnings of \$600 or more.	Imposes withholding at a 20-percent rate on winnings of more than \$1,000 from sweepstakes, wagering pools, and lotteries and from other types of gambling if the odds are 300 to 1 or more.	Same as the House bill except that it does not apply to winnings from slot machines, keno and bingo or from State-conducted lotteries. (Senate floor amendment by Senator Cannon to exclude winnings from slot machines, keno and bingo, adopted by voice vote; and amendment by Senator McIntyre to exclude State lotteries, adopted 52-40.) <i>Effective date</i> —Applies to wagers made after September 30, 1977. (Floor amendment by Senator Ford, adopted by voice vote, to extend effective date from 30 days after enactment to September 30, 1977.)	
		<i>Effective date</i> —Applies to wagers made after December 31, 1975.	<i>Revenue effect</i> —No revenue effect in fiscal 1977, annually thereafter, but will result in a gain of \$110 million in fiscal 1978 and \$66 million annually thereafter.	

TTITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
97. Withholding of Federal taxes on certain individuals engaged in fishing (Sec. 1207(f) of Senate amdt., p. 427)	For Federal tax purposes, crewmen on boats taking fish or other aquatic animal life are usually treated as regular employees, not as self-employed.	No provision.	Crewmen on boats engaged in taking fish or other aquatic animal life with an operating crew of fewer than ten are to be treated as self-employed for Federal tax purposes if their sole remuneration is a share of the boat's catch, or, in the case of an operation involving more than one boat, a share of the entire fleet's catch. <i>Effective date</i> —Applies, in general, to services performed after December 31, 1971, in taxable years ending after that date. <i>Revenue effect</i> —Loss of \$13 million annually.	
98. Voluntary withholding of State income taxes for certain legislative officers and employees (Sec. 1204 of House bill, p. 313)	Procedures already put into effect for legislative officers and employees.	Provides for the voluntary withholding of State income taxes in the case of certain legislative officers and employees.	No provision.	
99. Minimum exemption from levy for wages, salary, and other income (Sec. 1210 of House bill, p. 324) of Senate amdt., p. 434)	Exempts unemployment benefits from levy but not wages, salary, or other income (except that needed to pay pre-levy court-ordered child support). Requires repeated levies in cases of wages and salaries.	Exempts from levy a minimum amount (on a weekly basis, \$50, plus \$15 per dependent) of wages, salary, or other income. Allows continuous levies on wages and salaries. <i>Effective date</i> —Applies to levies made after December 31, 1975. <i>Effective date</i> —Applies to levies made after December 31, 1976.	Same as House bill.	

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
100. Joint Committee refund cases (Sec. 1210 of Senate amdt., p. 438)	A report concerning refunds of income, estate, gift and other types of taxes must be submitted to the Joint Committee on Taxation if the refund is in excess of \$100,000.	No provision.	Increases the jurisdictional amount for Joint Committee refund cases to \$200,000. Also adds refunds of taxes on private foundations and pension plans as subject to the report requirements and authorizes the Chief of Staff of the Joint Committee to conduct a post-audit review of other cases.	
101. Use of Social Security numbers (sec. 1201 of House bill, p. 286) (sec. 1211 of Senate amdt., p. 440)	<p>(1) A person required to file an income tax return must include an identifying number in his return; in general, individuals use their social security numbers for this purpose.</p> <p>(2) It is a misdemeanor to willfully, knowingly, and deceitfully use a social security number for purposes relating to obtaining or increasing the amount of benefits under a Social Security Act or other Federally funded program.</p> <p>(3) Under the Privacy Act of 1974, it is unlawful for any Federal, State or local government agency to deny to any individual any right, benefit, or privilege provided by law because of the individual's refusal to disclose his social security account number, unless:</p> <p>(a) disclosure is required by Federal statute, or</p> <p>(b) disclosure is required by a Federal, State or local agency under statute or regulation adopted prior to January 1, 1975.</p>	Amends Code to require use of social security number as taxpayer identifying number for Federal income tax purposes.	<p><i>Effective date</i>—Effective generally upon date of enactment.</p> <p>(1) Requires that, except as otherwise specified under regulations, an individual shall use his social security number for Federal income tax purposes.</p> <p>(2) Makes a misdemeanor the willful, knowing and deceitful use of a social security number for any purpose.</p> <p>(3) Changes the Privacy Act so that a State or political subdivision may use social security numbers for the purpose of establishing the identification of individuals affected by any tax, general public assistance, driver's license, and motor vehicle registration laws. If the State or local Government did not use the social security number for identification under a law or regulation adopted prior to January 1, 1975, it may require an individual to furnish his social security number solely for the purpose of administering tax, general public assistance, driver's license and motor vehicle registration laws. Any individual who discloses, uses, or compels the disclosure of the social security number of any person in violation of the laws of the U.S. is guilty of a misdemeanor.</p> <p>(Floor amendment by Senator Percy, as amended by Sen. Long adopted 49-42.)</p>	

Effective date—Effective for documents prepared after December 31, 1975.

Effective date—Effective on date of enactment.

TITLE XII—ADMINISTRATIVE PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
102. Interest on mathematical errors on returns prepared by IRS (Sec. 1212 of Senate amdt., p. 442; floor amdt. by Senator Stone, adopted by voice vote.)	Interest on any underpayment of tax runs from the original due date (regardless of extensions) to the date on which payment is received.	No provision.	In the case of an income tax deficiency attributable to a mathematical error on a return prepared by an IRS taxpayer service representative, interest will only begin to run on the 30th day after notice and demand for payment of the deficiency, provided the deficiency did not result from a failure by the taxpayer to provide information to the IRS service representative or from a willful misrepresentation of information by the taxpayer.	
103. Award of costs and attorneys' fees to prevailing taxpayer (Sec. 1213 of Senate amdt., p. 443; floor amdt. by Senator Bellmon, adopted by voice vote.)	No special provision for tax litigation; however, the prevailing party in any civil litigation brought by or against U.S. Government may recover costs, but no attorneys' fees nor expenses.	No provision.	<p><i>Effective date</i>—Applies to returns filed for taxable years beginning after the date of enactment.</p> <p><i>Revenue effect</i>—Loss is negligible.</p> <p>Prevailing taxpayer in any civil tax litigation may be awarded costs, including reasonable attorneys' fees up to \$10,000, but only if it is found that it was unreasonable for the U.S. Government to bring the action.</p> <p><i>Effective date</i>—Applies to civil actions and proceedings for redetermination of deficiencies commenced after the date of enactment.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	

TITLE XIII—MISCELLANEOUS PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action
104. Certain housing associations (Sec. 1301 of both bills; p. 349 of House bill and p. 445 of Senate amdt.)	Most cooperative housing corporations, condominium management associations and residential real estate management associations cannot qualify for exempt status.	Provides that a cooperative housing corporation, condominium management association, or residential real estate management association may elect to be tax exempt with respect to its membership dues and assessments. On other income, an electing organization is taxed at corporate rates without the surtax exemption.	Generally the same as the House bill, except that cooperative housing corporations are not permitted to elect. Technical amendments are made in definition of association property, qualifying expenditures, and qualifying purposes. Allows cooperative housing corporation to deduct depreciation on property leased to tenant-stockholders even though tenant-stockholders may be able to depreciate stock. Permits lending institutions which obtain stock in a cooperative housing corporation through foreclosure to be treated as a tenant-stockholder for up to three years. (Floor amendment by Senator Javits, adopted by voice vote.)	
105. Tax treatment of certain 1972 disaster losses (Sec. 1303 of both bills; p. 366 of the House bill and p. 452 of Senate amdt.)	Taxpayers are generally allowed to deduct losses attributable to fire, storm, and other casualties to the extent that such losses are not compensated for by insurance or otherwise. Where a deduction resulting from a loss is claimed in one year, and compensation is paid with respect to that loss in a later year, the amount of compensation is generally required to be taken into income.	In the case of a 1972 disaster loss in a Presidentially designated disaster relief area, the tax on the first \$5,000 of compensation received with respect to that loss is not to exceed the tax which would have been payable if the \$5,000 (or lesser) deduction had not been claimed. This treatment applies only if elected by the taxpayer and only if certain conditions are satisfied. Any tax with respect to this \$5,000 amount which was still unpaid on October 1, 1975, may be paid in three equal annual installments beginning on April 15, 1976.	<i>Effective date</i> —Generally applies to payments received after December 31, 1973. Provision relating to foreclosures by lending institutions applies to stock acquired after date of enactment. <i>Revenue effect</i> —Loss is negligible. Same as the House bill except that the first annual installment of tax liability still unpaid on October 1, 1975, is not due until April 15, 1977. <i>Effective date</i> —Same as the House bill. <i>Revenue effect</i> —Loss of \$60 million in fiscal 1977, \$15 million in fiscal 1978, and \$15 million in fiscal 1979, and no effect thereafter.	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
106. Worthless debts of political parties (Sec. 1304 of both bills; p. 369 of the House bill and p. 455 of the Senate amdt.)	Denies a deduction for worthless debts owed by political parties (including campaign committees).	Allows a deduction for worthless debts owed by political parties if the debts arise from bona fide sales of goods or services in the ordinary course of a trade or business, if 30 percent of the total business is with political parties, and if substantial efforts are made to collect the debt. <i>Effective date—Applies for taxable years beginning after 1974 and to all prior open years.</i> <i>Revenue effect—Loss is negligible.</i>	Same as the House bill. <i>Effective date—Applies to taxable years beginning after 1975.</i> <i>Revenue effect—Loss is negligible.</i>	
107. Tax-exempt bonds for student loans (Sec. 1305 of Senate amdt., p. 456)	Only interest on obligations issued by or on behalf of governmental entities such as States and their political subdivisions is exempt from Federal income taxation. In addition, even these obligations are generally not exempt if the proceeds might be used to purchase nonexempt securities or obligations whose yield will likely exceed the yield on the governmental obligations.	No provision. <i>Effective date—Applies for taxable years beginning after 1974 and to all prior open years.</i> <i>Revenue effect—Loss is negligible.</i>	Obligations are to be exempt from tax if issued by nonprofit corporations organized or requested to act by a State or a political subdivision solely to acquire student loan notes. Student loan incentive payments made by the Commissioner of Education are not to be taken into account in determining whether the yield on student loan notes is higher than the yield on obligations issued to finance the student loan program. <i>Effective date—Effective for obligations issued on or after the date of enactment.</i> <i>Revenue effect—Loss is negligible.</i>	
108. Prepublication expenditures (Sec. 1306 of House bill, p. 360)	IRS regulations and Rev. Rul. 73-395 deny a current deduction for research in connection with literary, historical, or similar projects. The ruling requires that publishers' prepublication expenditures must be capitalized and may be depreciated. IRS has suspended application of Rev. Rul. 73-395 to publishers pending study.	Allows publishers to continue their customary, consistent tax accounting methods with regard to prepublication expenditures, without regard to Rev. Rul. 73-395 until IRS issues new, prospective regulations. <i>Effective date—Applies to all open years.</i> <i>Revenue effect—Will have no revenue effect (because prior practices are continued). However, implementation of Rev. Rul. 73-395 for all prior years would result in a revenue pickup of about \$200 million.</i>	No provision.	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
109. Personal holding company income amendments (Sec. 1306 of Senate amdt., p. 818, as modified by floor amdt., by Senator Allen (47-44).)	<p>Royalties received by a corporation are personal holding company income, regardless how much income of other types the corporation may have. "Royalties" include amounts received for a license to use trade brands, franchises and similar intangible property.</p> <p>Rents received by a corporation from leasing corporate "property" to a 25-percent or greater shareholder are also personal holding income, but only if over 10 percent of the company's income comes from other types of personal holding company income.</p> <p>In Rev. Rul. 71-596, the Treasury ruled that a company's income from licensing a major shareholder to make and sell a secret process is governed by the "royalty" rule rather than by the "rent" rule.</p>	No provision.	<p>Treats intangible property as property subject to the rent rule, rather than the royalty rule, if the intangible property is used together with tangible property in an active trade or business conducted by the major shareholder who leases such property from the corporation.</p> <p>No interest is to be paid on any refund received by a taxpayer under the amendment.</p> <p><i>Effective date</i>—Applies to taxable years ending after December 31, 1964, and before January 1, 1972.</p> <p><i>Revenue effect</i>—Involves a refund of back taxes totaling approximately \$460,000.</p>	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
110. Work Incentive (WIN) and Federal Welfare Recipient Employment Tax Credits (Sec. 1307 of the Senate amdc., p. 459.)	<p>(1) The work incentive (WIN) credit, equal to 20 percent of the wages paid during the first 12 months of employment to qualified AFDC recipients, is available to employers engaged in a trade or business who hire such employees. Qualified participants are certified by the local WIN agency. The credit is not available in the case of an employee who ceases to work for the original employer for an additional 12 months unless the employee voluntarily quits, becomes disabled, or is fired for misconduct.</p> <p>The amount of the credit available in any year is limited to the first \$25,000 of tax plus one-half of tax liability in excess of \$25,000.</p> <p>(2) Under the Federal welfare recipient employment incentive tax credit (welfare recipient tax credit), all private employers including those who provide employment for private household workers are eligible for the credit. Qualified employees are AFDC recipients who have received benefits for 90 days. The credit is essentially the same as the WIN credit: 20 percent of eligible wages, except that there is a limit of \$5,000 a year on the annual eligible wages for non-business employees; the same overall credit limit of \$25,000 of tax plus one-half of the excess also applies.</p> <p>There is no limit to the number of months the credit is available.</p> <p>The State or local welfare agency certifies recipients as qualified.</p> <p>This provision expired on July 1, 1976.</p>	No provision.	<p>(1) Makes the credit available from the date of hiring if employment is not terminated without cause before the end of six months. Adds an additional exemption to the recapture rules so that there would be no recapture of the credit if the employee were laid off due to lack of business.</p> <p>Doubles the limit on the credit from \$25,000 to \$50,000 plus one-half of the excess over \$50,000.</p> <p>(2) Doubles the limit on the welfare recipient tax credit from \$25,000 to \$50,000 plus one-half of the excess over \$50,000.</p> <p>Provides a limit of 12 months for which the wages of any one employee would be eligible for the credit.</p> <p>Authorizes the WIN agencies also to certify eligibility for the welfare recipient tax credit.</p>	
			<p><i>Effective date</i>—Extends the expiration date from July 1, 1976, to January 1, 1981.</p> <p><i>Revenue effect</i>—Loss of \$3 million in fiscal 1977, \$7 million in fiscal 1978, and \$17 million in fiscal 1981.</p>	

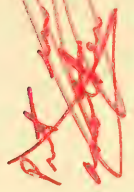
TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>111. Repeal of excise tax on certain parts of light-duty trucks (Sec. 1308 of Senate amdt., p. 462.)</p>	<p>An 8-percent manufacturers excise tax applies to the sale of truck parts and accessories. However, since the tax on light-duty trucks (10,000 lbs. or less) was repealed in 1971, no tax is imposed on such parts when included on a light-duty truck by the truck manufacturer. If the part is added by the dealer (and is not considered to be "further manufacture"), the 8-percent tax applies. (The tax is scheduled to be reduced to 5 percent after Sept. 30, 1979, the expiration of the Highway Trust Fund.)</p>	<p>No provision.</p>	<p>The 8-percent excise tax on truck parts and accessories is to be refunded or credited to the manufacturer where the part or accessory is sold on or in connection with the first retail sale of a light-duty truck. <i>Effective date</i>—Applies to sales after the date of enactment. <i>Revenue effect</i>—Loss of \$3 million per year (which would otherwise go into the Highway Trust Fund through September 30, 1979).</p>	
<p>112. Exemption from manufacturers excise tax for certain articles resold after certain modifications (Sec. 1309 of Senate amdt., 463; floor amdt., by Senator Hansen adopted by voice vote.)</p>	<p>A 10 percent manufacturers' tax is imposed on sales of bodies and chassis for heavy trucks, buses not used for mass transport, heavy trailers and semitrailers, and for highway tractors. An 8 percent tax is imposed on sales of parts or accessories for trucks and buses. Persons who obtain bodies or chassis and certain parts or accessories from different manufacturers and combine them are considered further manufacturers and must pay a 10-percent tax on their further sale, after credit for tax previously paid. Persons who buy the entire combination from a single manufacturer do not pay a manufacturer's tax on a further sale.</p>	<p>No provision.</p>	<p>A resale of an article subject to the 10-percent tax is not to be taxed merely because the article was combined with any coupling device, wrecker crane, loading and unloading equipment, aerial ladder or tower, snow and ice control equipment, earthmoving, excavation and construction equipment, spreader, sleeper cab, cab shield, or wood or metal floor. <i>Effective date</i>—Applies to resales on or after the date of enactment. <i>Revenue effect</i>—Loss is negligible. (Amounts would otherwise go into the Highway Trust Fund—through Sept. 30, 1979.)</p>	
<p>113. Franchise transfers (Sec. 1310 of Senate amendment, p. 463)</p>	<p>Under section 1253, the transfer of a franchise, trademark or trade name is not the sale or exchange of a capital asset if the transferor retains any significant power, right, or continuing interest with respect to the subject matter of the franchise, trademark, or trade name. No statutory rule prevents avoidance through use of partnerships.</p>	<p>No provision.</p>	<p>Adds provision treating potential ordinary income from franchise, trademark or trade name as an "unrealized receivable" of partnership. Effect is to apply to partnerships same rule as currently applies to sole proprietors. <i>Effective date</i>—Effective for transactions occurring after December 31, 1976. <i>Revenue effect</i>—Loss is negligible.</p>	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
114. Employer's duties to keep records and to report tips (Sec. 1311 of Senate amendment, p. 464)	Employees must report to employers all tips received, including charge account tips. Employers must include those tips in reporting to the IRS the employees' wages subject to withholding. The IRS has ruled that sec. 6041 (a) of the Code requires employers to report separately to IRS charge account tips not reported to employers by employees and therefore not reported to IRS by employers as wages subject to withholding.	No provision.	Employers need only report to IRS the tips, including charge account tips, reported to the employers by their employees. In addition, the only records employers are required to retain in connection with charge account tips are statements of tips received furnished by their employees and charge receipts. <i>Effective date</i> —Effective for taxable years beginning after 1975. <i>Revenue effect</i> —Loss is negligible.	2-year amortization study — 1980
115. Treatment of certain pollution control facilities (Sec. 1312 of Senate amendment, p. 465)	From 1969 through December 31, 1975, an election for 5-year amortization was available to a taxpayer who installed a new identifiable, certified pollution control facility in a plant that was in existence on January 1, 1969.	No provision.	Continues permanently the 5-year amortization election for facilities installed in plants in existence on January 1, 1969 makes amortization available for facilities that will prevent pollution emissions, and provides a two-thirds investment credit for these facilities if placed in service after December 31, 1976. <i>Effective date</i> —The extension of the 5-year amortization election and its availability for preventive facilities apply for taxable years after December 31, 1975. The investment credit provision applies for taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Gains of \$32 million in fiscal year 1977 and \$75 million in fiscal year 1978, and decreases of \$10 million in fiscal year 1979, \$95 million in fiscal year 1980, and \$199 million in fiscal year 1980. The term "agricultural", for tax purposes, is to include the harvesting of aquatic resources. <i>Effective date</i> —Effective for all taxable years beginning after December 31, 1972. <i>Revenue effect</i> —Loss is negligible.	1980
116. Qualification of fishing organizations as tax-exempt agricultural organizations (Sec. 1313 of Senate amdt. p. 467)	Fishing organizations may qualify as tax-exempt business leagues, but not as tax-exempt agricultural organizations. Tax-exempt agricultural organizations receive lower postal rates than do tax-exempt business leagues.	No provision.		

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
117. Subchapter S corporation shareholder rules (Sec. 1314 of Senate amd., p. 467)	A corporation is required to have 10 or fewer shareholders in order to be eligible to elect and maintain subchapter S treatment.	No provision.	<div>Fifteen shareholders are allowed after corporation has elected subchapter S for 5 consecutive years. In addition, corporation may have up to 15 shareholders during the 5-year period if additional shareholders acquired their interests through inheritance.</div> <div>Also, where a husband and wife are treated as one shareholder, the surviving spouse and the deceased spouse's estate are treated as one shareholder.</div> <div>Effective date—Effective for tax years beginning after December 31, 1976.</div> <div>Revenue effect—Loss is negligible.</div>	
118. Application of section 6013(e) (innocent spouse) (Section 1315 of the Senate amd., p. 469)	Sec. 6103(e), enacted January 12, 1971, relieves a spouse from tax liability for income omitted from return, if he or she is not responsible for omission and did not benefit from the unreported income.	No provision.	<div>Extends relief under innocent spouse provision to taxpayers who, but for <i>res judicata</i> effect of adverse judicial decision, would have been relieved of liability under the 1971 statute. Applies to all taxable years beginning after December 31, 1961, and ending on or before January 12, 1971.</div> <div>Effective date—Effective until end of first calendar year following date of enactment</div> <div>Revenue effect—<i>negligible</i></div>	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
119. Modifications in limitations on percentage depletion for oil and gas wells (Sec. 1316 of the Senate amendment, p. 470)	<p>(1) Disallows exemption from repeal of oil and gas percentage depletion for taxpayers who are oil and gas retailers.</p> <p>(2) Disallows percentage depletion on proven property transferred after 1974.</p> <p>(3) Limits percentage depletion to 65 percent of a taxpayer's taxable income.</p>	No provision.	<p>(1) Defines oil and gas retail sales to exclude any retail sales of less than \$5 million, any bulk sales of natural gas to industrial or utility customers, and any sales abroad where taxpayer does not export any U.S. production.</p> <p>(2) Makes clear that no transfer takes place when trusts acquire new beneficiaries by reason of births, deaths, or adoptions involving a single family.</p> <p>(3) Allows trusts to determine 65 percent of taxable income limitation without regard to any deduction for distributions to beneficiaries.</p> <p>(4) Also makes technical changes in present law.</p> <p>Provisions (2) and (3) do not apply to trusts any beneficiary of which is a member of a family of a settlor who created inter vivos and testamentary trusts for members of the family and who died in the last six days of May, 1970, but only if the trusts were created in a jurisdiction which requires that any percentage depletion allowance be allocated to corpus. (Floor amendment by Senator Long, adopted by voice vote.)</p> <p><i>Effective date</i>—Effective for taxable years beginning after December 21, 1974 (effective date of Tax Reduction Act of 1975).</p> <p><i>Revenue effect</i>—Revenue loss of \$24 million in fiscal 1977, \$10 million in subsequent years.</p> <p>Makes explicit that no costs will be charged to any State for "piggybacking"; reduces to one the number of States necessary to start the system; and eliminates the requirement that 5 percent or more of Federal returns be initially involved in triggering the system. Also, it permits certain adjustments for State sales tax credits.</p> <p><i>Effective date</i>—Effective upon date of enactment.</p>	
120. Implementation of Federal-State Tax Collection Act of 1972 (Sec. 1317 of Senate amendment, p. 475)	<p>A State whose individual income tax substantially conforms to the Federal individual income tax may enter into an agreement with the Internal Revenue Service for the IRS to collect and administer the State tax. At least two States with 5 percent of the Federal individual tax returns must elect to have their taxes "piggybacked" for the piggyback system to be generally available.</p>	No provision.		

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
121. Cancellation of certain student loans (Sec. 1318 of Senate amendment, p. 477)	Gross income includes income from discharge of indebtedness. Gross income does not include amounts received as a scholarship or fellowship grant at an educational institution, unless such amounts represent compensation for services or are primarily for the benefit of the grantor. The Service has ruled that discharge of indebtedness on student loans issued after June 11, 1973, are includable in gross income.	No provision.	Provides that no amount shall be included in gross income by reason of the discharge of all or part of a student loan if, pursuant to the loan agreement, such discharge is made if the individual works for a certain period of time in certain geographical areas or for certain classes of employers. Applies only to loans made by a governmental agency.	
122. Simultaneous liquidation of parent and subsidiary corporations (Sec. 1319 of Senate amendment, p. 478)	A corporation which sells its assets and liquidates completely within 12 months generally is not taxable on gain from its sale of assets (sec. 237). Its shareholders, however, are taxable on the liquidation proceeds they receive. The selling company in this situation is taxable, however, if it is a controlled subsidiary of a parent corporation. (The parent is not taxable when it liquidates the subsidiary.) If both the parent and the subsidiary plan to liquidate after the subsidiary sells its assets, two taxes may be imposed. The subsidiary may be taxed on its gain from the sale and the parent's shareholders may also be taxable when the parent liquidates.	No provision.	Adds a rule that if a controlled subsidiary sells its assets and then both it and its parent corporation liquidate completely, only one tax will be imposed and that will fall only on the parent's shareholders. <i>Effective date</i> —Effective for sales of assets under a plan of liquidation adopted on or after January 1, 1976. <i>Revenue effect</i> —Revenue loss is negligible.	<i>Effective date</i> —Effective for discharge of indebtedness made before January 1, 1979. <i>Revenue effect</i> —Revenue loss is negligible.
123. Prohibition of State-local taxation of certain vessels, barges, etc. (Sec. 1320 of Senate amendment, p. 479)	Congress has not limited the power of States or of their political subdivisions to tax vessels using navigable waterways in interstate commerce.	No provision.	Prohibits any State or political subdivision of a State from taxing any vessel, barge, or other craft using navigable waters of the United States in interstate commerce (except barges or vessels incorporated under the laws of the taxing State; owned by individuals, partnerships, or corporations domiciled in, or residents of, the State (having their home port in the State); or unless (under a floor amendment by Sen. Ford adopted by voice vote) the entire use takes place in a single State.	<i>Effective date</i> —Applies to taxable years ending after June 30, 1976.

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
124. Contributions in aid of construction for certain utilities (Sec. 1321 of Senate amd't., p. 480)	Under a recent revenue ruling by IRS, certain contributions in aid of construction are treated as income rather than as nontaxable contributions to the capital of a utility.	No provision.	<p>Treats certain contributions in aid of construction to water and sewerage disposal utilities as nontaxable contributions to capital if cash contributions are spent for qualifying water or sewerage disposal facilities before end of second taxable year following the year the contribution was received.</p> <p><i>Effective date</i>—Effective for contributions made on or after February 1, 1976.</p> <p><i>Revenue effect</i>—Loss of \$16 million in fiscal 1977, and \$11 million annually thereafter.</p>	<p><i>Remove to up charge</i></p> <p><i>Resident</i></p> <p><i>Only open public</i></p>
125. Prohibition of discriminatory State or local taxes on generation or transmission of electricity (Sec. 1322 of Senate amd't., p. 483)	Any restrictions on the power of States or their political subdivisions to tax goods or services produced in the taxing State for nondiscriminatory use outside the taxing State are derived from court interpretations of the interstate commerce clause of the Constitution.	No provision.	<p>Prohibits any State or political subdivision of a State from directly or indirectly imposing any tax on the generation or transmission of electricity if the tax is discriminatory against out-of-State users.</p> <p><i>Effective date</i>—Effective for taxable years beginning after June 30, 1974.</p>	
126. Deduction for cost of removing architectural and transportation barriers for the handicapped and elderly (Sec. 1323 of Sen. amd't., p. 484)	Generally, costs incurred to improve property used in a trade or business must be capitalized and may be depreciated over its useful life.	No provision.	<p>Provides elective current deduction for removal of architectural and transportation barriers to the handicapped and elderly (including the deaf and blind) in any facility or public transportation vehicle owned or leased for use in trade or business. Barrier removal must meet government standards. Maximum deduction is \$25,000 per taxpayer for any taxable year.</p> <p><i>Effective date</i>—Effective for taxable years beginning after December 31, 1976, and ending before January 1, 1980.</p> <p><i>Revenue effect</i>—Loss of \$4 million in fiscal 1977, \$10 million in fiscal 1978, \$10 million in fiscal 1979 and \$4 million in fiscal 1980.</p>	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
127. Publication of statistics of income (Sec. 1324(b) of the Senate amd't., p. 487)	Secretary of the Treasury is directed to publish annually statistics compiled from tax returns, including classifications of taxpayers and of income, the amounts allowed as deductions, exemptions and credits, as well as other facts deemed pertinent and valuable.	No provision.	Adds instruction that Secretary publish statistics on tax liability of people with high total income, including number and average income of high-income people with no income tax liability (after credits); specific deductions, exclusions and credits used to avoid tax; overall number of high-income individuals; and total income and tax liability of high-income group. Income, for this purpose, shall approximate real, economic income and shall include at least 2 adjustments: (1) AGI shall be reduced by investment income and expense to extent it does not exceed investment income; (2) tax preference items excluded or deducted in arriving at AGI shall be added back into income for this purpose.	Conference action
128. Report on tax increases resulting from inflation (Sec. 1324(a) of Senate amd't., p. 487)	No provision.	No provision.	Directs President to estimate in his annual economic report the change for the previous calendar year in the real tax burden resulting from the effect of inflation in eroding the real value of fixed dollar amounts used in determining tax rates and to project the change for the current calendar year. This tax change is to be estimated separately for the major sources of Federal revenues.	Conference action

Item	Present law	House bill	Senate amendment	Conference action
<p>129. Taxation of certified historic structures (Sec. 1325 of Senate amdt., P. 488; floor amdt. by Senator Beall, adopted by 94-2)</p>	<p>1. The original users of depreciable real property constructed after July 24, 1969, are allowed to depreciate the property using accelerated methods of depreciation, including the 150 percent declining balance method (200 percent in the case of residential rental property).</p>	No provision.	<p>1. Accelerated depreciation methods would not be allowed with respect to real property constructed on a site which had been occupied by a certified historic structure which was demolished or substantially altered (other than by virtue of a certified rehabilitation). A "certified historic structure" is defined as a depreciable building or structure which is (a) listed in the National Register, (b) located in a Registered Historic District and is certified by the Secretary of the Interior as being of historic significance to the district, or (c) located in a historic district designated under a State or local statute containing criteria satisfactory to the Secretary of the Interior. A "certified rehabilitation" is defined to be any rehabilitation of a certified historic structure which the Secretary of the Interior has certified as being consistent with the historic character of such property or district.</p>	<p>2. In case of the demolition of a certified historic structure, or of any other structure in a Registered Historic District, unless certified by the Secretary of the Interior prior to its demolition not to be of historic significance to the district, no deduction would be allowed for (1) the amount expended for its demolition, or (2) any loss sustained on account of the demolition. Deductions disallowed under this provision would be treated as chargeable to the capital account with respect to the land on which the demolished structure was located and thus would not be includable in the depreciable basis of any replacement structure.</p>
<p>2. The expenses of demolishing an old building, and the remaining undepreciated basis of the demolished building, are deductible unless the building was acquired with a view toward its demolition.</p>				

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
129. Taxation of certified historic structures—continued	3. Accelerated depreciation methods are generally not allowable with respect to used property acquired after July 24, 1969. A 125% declining-balance method may be employed to depreciate used residential property with a useful life of 20 years or more at the time of acquisition. The costs of rehabilitating an existing structure must be capitalized and depreciated according to the method (straight-line or 125% declining balance) used to depreciate the structure.	No provision.	3. Taxpayers would be allowed an election to treat for depreciation purposes “substantially rehabilitated historic property” as if they were the original users of the property (i.e., they would be allowed to use the 150% (or 200% in the case of residential rental property) declining-balance method of depreciation with respect to the entire basis of the rehabilitated property). A “substantially rehabilitated historic property” is defined to be any certified historic property if the capital expenditures incurred in the certified rehabilitation of the property during the 24-month period ending on the last day of the taxable year exceed the greater of (1) the taxpayer’s adjusted basis in the structure on the first day of the 24-month period or (2) \$5,000.	
	4. None.		4. Taxpayers would be allowed to elect, in lieu of claiming the depreciation deductions otherwise allowable, to amortize over a 60-month period the capital expenditures incurred in a certified rehabilitation of a historic structure. Amortization in excess of depreciation otherwise allowable would be recaptured as ordinary income on a sale of the property.	
	5. A charitable deduction is not allowed for contributions to charity (not in trust) of less than the taxpayer’s entire interest in the property unless it is a contribution of an undivided interest in the property, a contribution which would have been entitled to a charitable deduction if it had been made in trust, or a contribution of a remainder interest in real property consisting of personal residences or farms.		5. A deduction would be allowed for the contribution to a charitable organization exclusively for “conservation purposes” of (1) a lease on, option to purchase, or easement with respect to real property of not less than 30 years’ duration or (2) a remainder interest in real property. The term “conservation purposes” is defined to mean the preservation of land areas for public recreation, education, or scenic enjoyment, the preservation of historically important land areas or structures, or the preservation of natural environmental systems. Such contributions would also qualify as charitable contributions for estate and gift tax purposes.	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
129. Taxation of certified historic structures—continued				
			<i>Effective dates—</i> <ol style="list-style-type: none">1. Required use of straightline depreciation applies to additions to capital account after December 31, 1975, and before June 15, 1981.2. Disallowance of deductions applies to demolitions commencing after June 30, 1976, and before January 1, 1981.3. Accelerated depreciation on substantially rehabilitated historic property applies to additions to capital account after June 30, 1976, and before July 1, 1981.4. Five-year amortization applies to additions to capital account after June 14, 1976, and before June 15, 1981.5. Deductions allowable for charitable contributions and transfers made after June 13, 1976, and before June 14, 1977.	
			<i>Revenue effect.</i> —Loss of \$1 million in fiscal 1977, \$3 million in fiscal 1978, and \$16 million in fiscal 1981.	
			Extends the period during which the one-third reduction may be suspended from six months to 18 months.	
130. Supplemental Security Income for victims of certain natural disasters				
(Sec. 1326 of Sen. amdt., p. 499; floor amdt. by Sen. Church, adopted by voice vote)	In general, an SSI recipient living in someone else's household has his benefits reduced by one-third to reflect a lower level of need. P.L. 94-331 eliminated for up to six months the one-third reduction in the case of individuals displaced as a result of a major disaster occurring between June 1, 1976 and December 31, 1976.	No provision.		

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
131. Exclusion of countries which aid and abet international terrorists from preferential tariff treatment (Sec. 1327 of Senate amendment, p. 499; floor amendment by Senator Bentsen, adopted by voice vote)	<p>The Trade Act of 1974 (Public Law 93-618) authorized the President to extend duty-free treatment to certain eligible products, within certain limitations, from beneficiary developing countries for a 10-year period. When Congress enacted the Trade Act it excluded the following categories of countries:</p> <ol style="list-style-type: none"> 1. All Communist countries, except those which receive MFN treatment, which are members of the GATT and the IMF, and which are not dominated by international communism. 2. Any country which is a member of OPEC or has entered into any other cartel-type arrangement, and acts to withhold supplies of vital materials or to charge a monopolistic price which creates serious disequilibrium in the world economy. Countries which are members of such cartels or OPEC and which act to withhold supplies or charge unreasonable prices may only qualify for preferential treatment in the U.S. market only if they entered into an agreement with the United States or an agreement to which the United States is a party, which assures U.S. access to essential articles at reasonable prices. 3. Any country which has expropriated the property of a U.S. national without provision for prompt, adequate, and effective compensation or without submitting the dispute to arbitration or carrying on good-faith negotiations. 4. Any country which has not taken adequate steps to cooperate with the United States to prevent narcotics and other controlled substances from unlawfully entering the United States. 5. Countries which do not eliminate reverse preferences by January 1, 1976, or do not take steps to assure that such preferences do not have a significant adverse effect on U.S. commerce by January 1, 1976. 6. Countries which do not recognize arbitral awards to U.S. citizens issued by arbitral bodies to which the parties have submitted their dispute. <p>In the case of items (4), (5) and (6), the President may make an exception for particular countries when he deems it to be in the national economic interest and reports such determination to Congress.</p>	No provision.	<p>Provides that the President shall not designate a beneficiary developing country under the Generalized System of Preferences "if such country aids or abets, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism." Provides that the President may waive the prohibition in the case of a particular country if he claims it to be in the national economic interest and reports such determination to Congress.</p> <p><i>Effective date</i>—Date of enactment.</p> <p><i>Revenue effect</i>—No tax effect. A possible increase in tariff receipts depending on Presidential action.</p>	

TITLE XIII—MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
132. Net operating loss carryovers for Cuban expropriations (Sec. 1328 of Senate amdt., p. 500; floor amendment by Sen. Stone, adopted by voice vote)	Taxpayer may carry-over net operating loss attributable to Cuban expropriation to each of 15 taxable years following taxable year of the loss.	No provision.	Extends carryover period for five years to 20 taxable years following the loss. <i>Effective date</i> —No effective date (all losses claimed prior to December 31, 1965). <i>Revenue effect</i> —Loss is negligible.	OK
133. Study of tax treatment of married and single persons (Sec. 1329 of Sen. amdt., p. 500; floor amendment by Sen. Ford, adopted by voice vote)	None	No provision.	Joint Committee staff is to study the tax treatment of persons married, single or heads of households to suggest changes toward improving equity in treatment. Study to be completed by September 30, 1977.	NO

TITLE XIV—CAPITAL GAINS AND LOSSES

Item	Present law	House bill	Senate amendment	Conference action										
134. Increase in capital loss offset against ordinary income (Sec. 1401 of the House bill, p. 362.)	Capital losses are deductible in full against capital gains. For individuals, the excess of capital losses over capital gains can be deducted against only \$1,000 of ordinary income each year, with unlimited carryover to future years.	Increases the amount of ordinary income against which capital losses may be deducted to \$2,000 in 1976, to \$3,000 in 1977, and to \$4,000 in 1978 and subsequent years. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1975.	No provision.											
135. Increase in holding period for long-term capital gains (Sec. 1402 of the House bill, p. 363.)	Gains or losses on capital assets held for more than six months are considered long-term capital gains or losses. For individuals, 50 percent of the excess of net long-term capital gains over net short-term capital losses is excluded from income. Individuals may elect to have their first \$50,000 of net long-term capital gains taxed at an alternative rate of 25 percent. Corporations have the option of paying an alternative tax of 30 percent on net long-term capital gains.	Increases the holding period for long-term capital gains from six months to eight months for 1976, to 10 months for 1977, and to one year for 1978 and subsequent years, except for gains on agricultural commodity futures contracts. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1975.	No provision.	<div>Compromise</div> <table><tr><td>1977</td><td>2000</td></tr><tr><td>1978</td><td>3000</td></tr><tr><td colspan="2"><hr/></td></tr><tr><td>1977</td><td>9 mos.</td></tr><tr><td>1978</td><td>12 mos.</td></tr></table>	1977	2000	1978	3000	<hr/>		1977	9 mos.	1978	12 mos.
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TITLE XV—PENSION AND INSURANCE TAXATION

Item	Present law	House bill	Senate amendment	Conference action
136. Individual retirement account (IRA) for spouse (Sec. 1501 of Senate amdt., p. 502)	The IRA deduction is limited to \$1,500 or 15 percent of compensation (whichever is less), so that a person without earned income is not allowed an IRA deduction. The IRA deduction is not allowed to a person for a contribution to the IRA of another person.	No provision.	An individual with compensation can contribute up to \$2,000 to an IRA he and his non-employed spouse own jointly or can contribute up to \$1,000 to his own IRA and \$1,000 to an IRA separately owned by his spouse. The deduction is limited to 15 percent of compensation. Both spouses must consent to a distribution from a joint IRA. The \$2,000 and the \$1,000 IRA would be alternatives to the \$1,500 IRA allowed under present law. Contributions to the \$2,000 and \$1,000 IRAs would be offset by employer contributions under the rules for limited employee retirement accounts. <i>Effective date</i> —Applies to taxable years beginning after 1976. <i>Revenue effect</i> —Loss of \$3 million in fiscal 1977, \$21 million in fiscal 1978, and \$25 million in fiscal 1981.	
137. Limitation on contributions to certain H.R. 10 plans (Sec. 1502 of Senate amdt., p. 522)	A self-employed individual can set aside up to \$750 of self-employment income in an H.R. 10 plan without regard to the usual rule limiting H.R. 10 plan contributions to 15 percent of self-employment income. However, due to a technical problem, a plan is disqualified if the contribution exceeds 25 percent of self-employment income.	No provision.	A self-employed individual could set aside up to \$750 of self-employment income in an H.R. 10 plan without regard to the usual 15-percent limitation or the 25-percent limitation. The exception would only apply if the individual's adjusted gross income does not exceed \$15,000. <i>Effective date</i> —Applies to taxable years beginning after 1975. <i>Revenue effect</i> —Loss is negligible.	

TITLE XV—PENSION AND INSURANCE TAXATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>138. Deduction for retirement contributions of private and government employees—limited employee retirement accounts (Sec. 1502 of House bill, p. 374) (Sec. 1503 of Senate amdt., p. 524)</p>	<p>An individual who participates in a qualified pension, etc. plan, a tax-sheltered annuity, or a government plan cannot make deductible contributions to an IRA.</p>	<p>Allows an IRA deduction to a participant in a qualified plan or tax-sheltered annuity. The deduction is allowed for a contribution to the plan (if the plan was in existence when the 1974 Pension Act was enacted) or to an IRA. The deduction is not allowed to a participant in a government plan. The usual IRA limits are reduced by amounts actually contributed to a defined contribution plan by an employer. Under a defined benefit plan, the limitation is reduced by the level cost of the plan benefits or the cost of benefits accruing during the year. Employers would report these amounts to employees.</p>	<p>Adopts provisions under which a participant in a government plan would be permitted to make deductible contributions to an IRA (but only if a provision like that in the House bill becomes effective for a participant in a private qualified plan). If the government employee-type IRA becomes effective, the IRA limits on deductions would continue to apply, but they would be reduced by the amount of the employer contributions under the regular pension plan allocable to the employee.</p>	
<p>139. Retirement deductions for members of Armed Forces Reserves and National Guard (Sec. 1504 of Senate amdt., p. 534)</p>	<p>A participant in a governmental plan is not allowed a deduction for an IRA contribution so that the deduction is not allowed to members of the Armed Forces Reserves and National Guard covered by the military retirement plan.</p>	<p>No provision.</p>	<p><i>Effective date</i>—Applies to taxable years beginning after 1976, for which a participant in a private qualified plan is allowed a deduction for an IRA contribution.</p> <p><i>Revenue effect</i>—If the government employee-type IRA becomes effective, loss of \$10 million in fiscal 1977, \$64 million in fiscal 1978, and \$77 million in fiscal 1981.</p> <p>Allows a member of the Armed Forces Reserves or National Guard to qualify for an IRA deduction for a year (if otherwise qualified) despite his participation in the military retirement plan if he has 90 or fewer days of active duty (other than for training) during the year.</p> <p><i>Effective date</i>—Applies to taxable years beginning after 1975.</p> <p><i>Revenue effect</i>—Loss of \$6 million in fiscal 1977, \$5 million annually thereafter.</p>	
<p>140. Tax-exempt annuity contracts in closed end mutual funds (Sec. 1505 of Senate amdt., p. 534)</p>	<p>Amounts contributed by certain tax-exempt organizations and educational institutions to provide annuities for employees are not included in the employees' income if the contributions are used to purchase annuity contracts or are invested in open-end mutual funds. (An open-end mutual fund refers to a regulated investment company which issues redeemable shares.)</p>	<p>No provision.</p>	<p>Allows contributions for tax-sheltered annuities to be made to closed-end investment companies as well as to open-end mutual funds and annuity contracts. (A closed-end investment company refers to a regulated investment company which sells its stock rather than issuing redeemable shares.)</p> <p><i>Effective date</i>—Applies to taxable years beginning after 1975.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	

TITLE XV—PENSION AND INSURANCE TAXATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>141. Pension fund investments in segregated asset accounts of life insurance companies (Sec. 1506 of Senate amdt., p. 535)</p>	<p>A segregated asset account can serve as an investment account and reserve for an insurance contract providing for annuities under which the premiums or benefits depend on the performance of the assets in the account.</p>	<p>No provision.</p>	<p>Allows a segregated asset account to be used as an investment account for insurance contracts with qualified plans that do not provide annuities. A pension fund can invest assets in such an account in lieu of a trust if the investment is otherwise permitted under law.</p> <p><i>Effective date</i>—Applies for taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	
<p>142. Study of salary reduction pension plans (Sec. 1507 of Senate amdt., p. 536)</p>	<p>On December 6, 1972, the IRS issued proposed regulations which would have changed the tax treatment of salary reduction, cafeteria, and cash or deferred profit-sharing plans. In order to allow time for congressional study of these areas, section 2006 of ERISA provided for a temporary freeze of the status quo until December 31, 1976.</p>	<p>No provision.</p>	<p>The temporary freeze of the status quo (under which plans established before June 27, 1974, are governed by the law in effect prior to the 1972 temporary regulations) would be extended until January 1, 1978.</p>	
<p>143. Consolidated returns for life and mutual insurance companies (Sec. 1508 of Senate amdt., p. 537)</p>	<p>Life insurance companies cannot file consolidated returns with non-life companies. In addition, mutual casualty insurers are effectively precluded from filing consolidated returns with other types of companies.</p>	<p>No provision.</p>	<p>Allows life insurance companies and other mutual insurance companies to file consolidated returns with other companies under rules limiting the amount of non-life losses applied against life company income to one-half the loss or one-half of life company income, whichever is less. Non-life losses could not be carried back against life company income.</p> <p><i>Effective date</i>—Applies to taxable years beginning after 1977.</p> <p><i>Revenue effect</i>—No effect in fiscal 1977, loss of \$25 million in fiscal 1978, and \$40 million in fiscal 1981.</p>	

TITLE XV—PENSION AND INSURANCE TAXATION—Continued

Item	Present law	House bill	Senate amendment	Conference action
144.* Guaranteed renewable life insurance contracts (Sec. 1509 of Senate amdt.) *Deleted by mistake as part of a technical amendment on Senate floor.)	A life insurance company can deduct 10 percent of the increase in its reserves for nonparticipating contracts for a taxable year or, if greater, 3 percent of the premiums for the year (excluding the portion of the premiums which is allocable to annuity features) attributable to nonparticipating contracts (other than group contracts) if the policies are issued or renewed for at least 5 years.	No provision.	Provides that the time for which a policy is issued or renewed includes the period for which the insurer guarantees that the policy is renewable by the policyholder. <i>Effective date</i> —Applies to taxable years beginning after 1957. <i>Revenue effect</i> —Loss is negligible.	
145. Tax-free rollover in event of plan termination (Sec. 1501 of House bill, p. 370)	Provisions substantially similar to the House bill were enacted on April 15, 1976 (Pub. Law 94-267).	Permits tax-free rollover of a distribution from a tax-qualified plan to an IRA or to another qualified plan in the event of plan termination.	No provision (enacted into law in separate legislation).	

TITLE XVI—REAL ESTATE INVESTMENT TRUSTS

Item	Present law	House bill	Senate amendment	Conference action
<p>146. Deficiency dividend procedure (Sec. 1601 of both bills; p. 400 of House bill and p. 541 of Senate amendment)</p>	<p>A REIT is provided the same general conduit treatment that applies to a mutual fund. If trust qualifies as a REIT, income of the REIT which is distributed to investors is taxed to them and not to the REIT.</p> <p>A REIT must distribute at least 90 percent of its REIT taxable income in year earned or next succeeding year. Failure to meet distribution requirement results in loss of REIT status.</p>	<p>Provides for a deficiency dividend procedure which permits qualifying distributions to be made in subsequent years where an adjustment occurs that either increases the amount which the REIT is required to distribute to meet the 90 percent test or decreases the amount of dividends previously distributed for that year. Deficiency dividend procedure available only if the entire amount of the adjustment was due to reasonable cause. Penalty imposed where deficiency dividend procedure is adopted based on total amount of the adjustment.</p>	<p>Same as House bill except (1) modifies the House bill to make the procedure available only where the entire amount of the adjustment was not due to fraud with intent to evade tax or willful failure to file an income tax return and (2) modifies the House bill to base the penalty on the amount of the adjustment to the extent that the deficiency dividend deduction is allowed.</p>	
<p>147. Failure to meet income source tests (Sec. 1602 of both bills; p. 408 of House bill and p. 551 of Senate amendment)</p>	<p>A REIT is required to derive annually at least 90 percent of its gross income from certain passive sources and at least 75 percent of its gross income from certain real estate sources. Failure to meet these requirements results in disqualification.</p>	<p>Failure to meet 75-percent or 90-percent requirements as a result of a determination will not result in disqualification if the REIT had reasonable grounds to believe and did believe that it met 75-percent and 90-percent tests. Imposes a tax at normal corporate rates (48 percent) on the net income on the amount by which the REIT fails <i>both</i> the 75-percent or 90-percent requirements.</p>	<p>Failure to meet 75-percent or 90-percent requirements will not result in disqualification if (1) the REIT sets forth the source and nature of its gross income in its return, (2) the inclusion of any incorrect information in this schedule is not due to fraud with intent to evade tax, and (3) the failure to meet the income source requirements is due to reasonable cause and not due to willful neglect. Imposes a 100-percent tax on the net income attributable to the greater of the amount by which the REIT fails the 75-percent or 90-percent requirements.</p>	
<p>148. Treatment of property held for sale to customers (Sec. 1603 of both bills; p. 412 of House bill and p. 554 of Senate amendment)</p>	<p>A REIT is not permitted to hold any property primarily for sale to customers in the ordinary course of its trade or business. Failure to meet the requirement results in disqualification.</p>	<p>Permits a REIT to derive one-percent of its gross income from property held for sale to customers without disqualification. Imposes a tax at normal corporate rates (48 percent) on the net income from such property up to one-percent of its gross income and at twice the normal corporate rates (96 percent) on the net income from such property in excess of one-percent of its gross income.</p>	<p>Removes entirely the prohibition against holding property held for sale to customers. Imposes a 100-percent tax on the net income from such property.</p>	

TITLE XVI—REAL ESTATE INVESTMENT TRUSTS—CONTINUED

Item	Present law	House bill	Senate amendment	Conference action
149. Increase in 90-percent gross income requirement to 95 percent (Sec. 1604(a) of both bills; p. 415 of House bill and p. 557 of Senate amendment)	In order to qualify for real estate investment trust status, the trust must derive at least 90 percent of its income from certain passive sources.	Increases the percentage of gross income that must be derived from certain passive sources from 90-percent to 95-percent. <i>Effective date</i> —Applies to taxable years beginning after date of enactment.	Same as the House bill. <i>Effective date</i> —Applies to taxable years beginning on or after January 1, 1980.	
150. Change in definition of "rents from real property" (Sec. 1604(b) of both bills; p. 415 of House bill and p. 557 of Senate amendment)	"Rents from real property" qualify for both the 75-percent and 90-percent requirements. "Rents from real property" does not include (1) amounts received for customary services if separate charges are made for such services, (2) amounts attributable to the rental of personal property even if incidental to the rental of real property, and (3) amounts which are contingent upon the net income or profits of anybody deriving income from the property.	Modifies the definition of "rents from real property" to include (1) amounts received for customary services even if separate charges are made for such services and (2) amounts attributable to personal property incidental to the rental of real property if the amount allocable to personal property is less than 15 percent of total rent.	Same as House bill. In addition, provides that where REIT leases to a prime tenant with a rent based on a percentage of the prime tenant's gross receipts and the prime tenant sub-leases to a subtenant with a rent based on a percentage of the subtenant's net income or profits, only a portion of the rent received from the prime tenant does not qualify as "rents from real property."	
151. Change in distribution requirements (Sec. 1604(j) of Senate amendment, p. 566)	In order to qualify for REIT status, a trust must distribute 90-percent of its REIT taxable income. If trust qualifies for REIT status, the nonqualifying income is not subject to tax at the REIT level if such income is distributed to its shareholders.	Imposes a tax at normal corporate rates (48 percent) on nonqualifying income.	Deletes tax on nonqualifying income. Increases the distribution requirement from 90 percent to 95 percent.	
152. Termination or revocation of election (Sec. 1604(k) of Senate amendment, p. 568)	A REIT which loses its status as a REIT in one year can requalify in the next subsequent year even if the REIT purposefully did not qualify in the preceding year.	No provision.	<i>Effective date</i> —Applies to taxable years beginning on or after January 1, 1980. Provides that a REIT which voluntarily dis-qualifies itself from REIT status cannot re-qualify for 5 years.	
153. Excise tax on distribution made after taxable year (Sec. 1605 of both bills; p. 423 of House bill and p. 570 of Senate amendment)	A REIT can elect to treat dividends paid during one year as qualifying distributions for the next preceding year even though the REIT's shareholders are not taxed until the distribu-tion is received.	Imposes an excise tax on the REIT to the extent that it fails to distribute 75-percent of the income it is required to distribute during the year the income is earned.	Same as House bill. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1979.	

TITLE XVI—REAL ESTATE INVESTMENT TRUSTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
154. Allowance of net operating loss carryover (Sec. 1606 of Senate amendment, p. 575)	A REIT is not allowed to use a net operating loss carryover to reduce its taxable income and distribution requirements.	No provision.	Allows the net operating loss deduction to a REIT for carryovers but not carrybacks. <i>Effective date</i> —Applies to taxable years ending after date of enactment. <i>Revenue effect</i> —Loss is negligible.	
155. Alternative tax in case of capital gains (Sec. 1607 of Senate amendment, p. 577)	A REIT is taxed on its net capital gains less amounts of net capital gain distributed to shareholders at a flat 30-percent rate. It cannot reduce its net capital gains by ordinary losses as is permitted ordinary corporations.	No provision.	Permits a REIT to reduce its net capital gains by its ordinary losses if it does not use the alternative tax (30 percent) on net capital gain. <i>Effective date</i> —Applies to taxable years ending after date of enactment. <i>Revenue effect</i> —Loss is negligible.	

Revenue effect—Loss is negligible.

TITLE XVII—RAILROAD PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action
<p>156. Amortization of track accounts (Sec. 1701 of Senate amendment, p. 584)</p>	<p>Railroads generally use retirement-replacement depreciation for track costs under which original track costs are capitalized and later replacements are entirely or partly deducted currently.</p>	<p>No provision.</p>	<p>Domestic railroads will be allowed 10-year amortization on capitalized costs for railroad track material and installation. Under a floor amendment by Sen. Harlike (agreed to by voice vote), a deduction under this provision will be deferred to the extent it causes a taxpayer to have a loss from its railroad operations.</p> <p><i>Effective date</i>—Applies to costs of track materials placed in service after December 31, 1975.</p> <p><i>Revenue effect</i>—Loss of \$5 million in fiscal 1977, \$10 million in fiscal 1978, and \$28 million in fiscal 1981.</p>	
<p>157. Railroad ties (Sec. 1702 of House bill, p. 486) (Sec. 1701 of Senate amendment, p. 584) (Also, Sec. 2710 of Senate amendment, p. 1048; floor amendment by Senator Stone)</p>	<p>Railroads generally use retirement-replacement depreciation for track costs under which original track costs are capitalized and later replacements are entirely or partly deducted currently.</p>	<p>Allows a current deduction for costs of replacing one type of railroad tie with another type of tie.</p> <p><i>Effective date</i>—Applies to amounts paid or incurred after December 31, 1974, in taxable years ending after that date.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	<p>Allows a deduction of costs for an improved type of tie to extent of the current costs of the type of tie which is replaced. Additional costs are capitalized and may be amortized under Item 156 above.</p> <p>Under a floor amendment by Senator Stone, adopted by voice vote, the full cost of replacement ties could be deducted currently.</p> <p><i>Effective date</i>—Effective for amounts paid or incurred after December 31, 1975, in taxable years beginning after this date.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	

TITLE XVII—RAILROAD PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
158. Investment credit limitation for railroads (Sec. 1701 of Senate amendment, p. 584)	Generally, investment credits which may be claimed are limited to 50 percent of tax liability for the taxable year. Public utilities, however, are allowed to use their credits up to 100 percent of tax liability for 1975 and 1976, and in percentages which are reduced annually by 10 percentage points for later years until 1981, when the limitation returns to 50 percent.	No provision.	Allows railroads to take credits up to 100 percent of tax liability for 1976 and 1977 with annual reductions of 10 percentage points thereafter until the limitation returns to 50 percent in 1982. <i>Effective date</i> —Applies to tax years ending after December 31, 1975. <i>Revenue effect</i> —Loss of \$29 million in fiscal 1977, \$66 million in fiscal 1978, and \$41 million in fiscal 1981.	
159. Investment credit limitation for airlines (Sec. 1703 of Senate amendment, p. 596; floor amendment by Senator Curtis, adopted by 40-37)	Generally, investment credits which may be claimed are limited to 50 percent of tax liability for the tax year. Public utilities, however, are allowed to use their credits up to 100 percent of tax liability for 1975 and 1976, and in percentages which are reduced annually by 10 percentage points for later years until 1981, when the limitation returns to 50 percent.	No provision.	Allows airlines to take credits up to 100 percent of tax liability for 1976 and 1977 with annual reductions of 10 percentage points thereafter until the limitation returns to 50 percent in 1982. <i>Effective date</i> —Applies to taxable years ending after December 31, 1975. <i>Revenue effect</i> —Loss of \$32 million in fiscal 1977, \$55 million in fiscal 1978, and \$21 million in fiscal 1981.	

TITLE XVIII—TAX CREDIT FOR HOME GARDEN TOOLS

Item	Present law	House bill	Senate amendment	Conference action
160. Home garden tool credit (Sec. 1801 of the House bill, p. 432)	None	Provides a 7-percent tax credit for the first \$100 of home garden tool expenses. <i>Effective date</i> —Effective for expenses paid in taxable years beginning after December 31, 1975. <i>Revenue effect</i> —Loss of \$24 million in fiscal 1977, \$22 million in fiscal 1978, and \$26 million in fiscal 1981.	No provision.	

TITLE XIX—REPEAL AND REVISION OF OBSOLETE, RARELY USED, ETC., PROVISIONS OF INTERNAL REVENUE CODE OF 1954

161. "Deadwood" provisions
(Secs. 1911-1917 and 1921-1922 of the House bill, pp. 435-661; and Secs. 1900-1907 and 1951-1952 of Senate amendment pp. 598-798)

None

Repeals or modifies obsolete and rarely used provisions of the Internal Revenue Code of 1954; also, makes simplifying changes in Code terminology.

Same as House bill, except for conforming changes.

Amendment
delegated

TITLE XX—ENERGY-RELATED PROVISIONS

Item	Present law	House bill	Senate amendment	Conference action
162. Residential insulation credit (Sec. 2001 of Senate amendment, p. 826) (Sec. 231 of H.R. 6860, p. 49)	No credit or deduction is normally allowable for expenditures for insulation of a taxpayer's residence.	Provides a nonrefundable credit for 30 percent of first \$500 (maximum credit of \$150) for insulation of a taxpayer's existing principal residence. Expenditure limitation is reduced by prior allowable expenditures of residents of same residence. (H.R. 6860 only)	Refundable credit for 30 percent of first \$750 (maximum credit of \$225) of insulation expenses (including installation). Under a floor amendment by Senator Brooke (agreed to by voice vote), the credit is available for costs of other energy conserving components (that are improvements in the efficiency of home heating systems) in the principal residence of the taxpayer. No credit is allowed for installation of entirely new heating system or for equipment permitting use of alternative fuels. Under a separate floor amendment by Senator Brooke (agreed to by voice vote), the credit is extended to insulation of furnaces, boilers, ducts and pipes. Expenditure limitation is reduced by prior allowed expenditures of same taxpayer on same residence.	
163. Residential solar and geothermal energy equipment credit (Sec. 2002 of Senate amendment, p. 834) (Sec. 232 of H.R. 6860, p. 55)	No credit or deduction is normally allowable for expenditures for solar or geothermal energy equipment for a taxpayer's residence.	Provides a nonrefundable credit for 25 percent of first \$8,000 (maximum credit of \$2,000) for solar equipment installed by owners on their principal residences. Expenditure limitation is reduced by prior allowable expenditures of all owners of the residence. <i>Effective date</i> —Effective when both the installation and expenditure are after March 17, 1975, and before 1978. <i>Revenue effect</i> —Loss of \$450 million in fiscal 1977, \$260 million in fiscal 1978, and no effect thereafter.	<i>Effective date</i> —Effective when both the installation and expenditure are made (or incurred) after June 30, 1976, and before 1979. <i>Revenue effect</i> —Loss of \$256 million in fiscal 1977, \$415 million in fiscal 1978, \$353 million in fiscal 1979, and no effect thereafter. Refundable credit for 40 percent of first \$1,000 and 25 percent of next \$6,400 (maximum credit of \$2,000) for both solar and geothermal equipment installed by a resident on any residence. Expenditure limitation is reduced only by prior allowed expenditures of same taxpayer on same residence. No credit is allowed for solar energy equipment unless such equipment is excluded by law from assessed valuation for State and local real property tax purposes. <i>Effective date</i> —Effective when both the installation and expenditure are made (or incurred) after June 30, 1976, and before 1981. <i>Revenue effect</i> —Loss of less than \$5 million in fiscal 1977 and 1978, and \$81 million in fiscal 1981.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill (H.R. 6860 only)	Senate amendment	Conference action
164. Residential heat pump credit (Sec. 2002 of Senate amendment, p. 834)	No credit or deduction is normally allowable for expenditures for heat pump equipment for a taxpayer's residence.	No provision in the tax reform bill nor in the energy tax bill (H.R. 6860).	Refundable credit for 20 percent of first \$1,000 and 12½ percent of next \$6,400 (maximum credit of \$1,000) for heat pumps installed in any taxpayer residence in existence on May 25, 1976. Expenditure limitation is reduced by prior allowed solar, geothermal, heat pump, or wind-related energy expenditures of same taxpayer on same residence. Under a Senate floor amendment by Senator Brooke (adopted by voice vote), the credit is available only for heat pumps which replace or supplement existing electrical resistance space-heating. <i>Effective date</i> —Effective when both the installation and expenditure are made (or incurred) after June 30, 1976, and before 1979. <i>Revenue effect</i> —Loss of \$3 million in fiscal 1977, \$5 million in fiscal 1978, \$6 million in fiscal 1979, and no effect thereafter.	
165. Credit for wind-related residential energy equipment (Sec. 2002 of Senate amendment, p. 834)	No special tax credit or deduction is given for wind-related energy equipment.	No provision in tax reform bill nor in energy tax bill (H.R. 6860).	Provides a refundable tax credit for 40 percent of the first \$1,000 and 20 percent of the next \$6,400 (maximum credit of \$2,000) for certain wind-related energy equipment (such as windmills) installed to generate electricity to heat or cool residences or to provide hot water. The amount eligible for the credit is reduced by prior allowed expenditures for solar, geothermal, heat pump, or wind-related energy equipment on the same residence. <i>Effective date</i> —Applies when both the installation and the expenditure are made (or incurred) after June 30, 1976, and before January 1, 1981. <i>Revenue effect</i> —Loss is negligible.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill (H.R. 6860 only)	Senate amendment	Conference action
166. Business insulation credit (Sec. 2003 of the Senate amendment, p. 845) (Sec. 431 of H.R. 6860, p. 99)	Insulation of business property is treated as an improvement to structural components of a building and thus is not eligible for the investment credit.	Extends the current 10-percent investment credit to include the costs of insulating an existing business structure.	The current 10-percent investment credit is extended to the insulation costs in an existing business property.	
167. Business solar and geothermal equipment credit (Sec. 2003 of Senate amendment, p. 845) (Sec. 431 of H.R. 6860, p. 99)	Solar or geothermal energy equipment does not usually qualify for the investment credit because this equipment is usually treated as a structural component of a building.	Extends investment credit of current law (at whatever may be the current rate) to solar energy equipment. The credit is available for equipment which becomes a structural component of a building and for equipment installed on lodging property.	<i>Effective date</i> —Applies to installations paid or accrued, after December 31, 1976, and before January 1, 1979. <i>Revenue effect</i> —Loss of \$11 million in fiscal 1977, \$26 million in fiscal 1978, and \$15 million in fiscal 1979. Special investment credit of 20 percent for both solar and geothermal energy equipment. Credit is available for equipment which becomes a structural component of a building and for equipment installed for lodging property.	
168. Investment credit for wind-related energy equipment used in the production of electricity (Sec. 2003 of Senate amendment, p. 845)	Wind-related energy equipment used to generate electricity may be entitled to the general 10-percent investment credit of present law.	No provision in tax reform bill nor in energy tax bill (H.R. 6860).	<i>Effective date</i> —Effective for property acquired or constructed after December 31, 1976. Under a Senate floor amendment by Senator Kennedy (agreed to by voice vote), the provision does not apply to property placed in service after 1979. <i>Revenue effect</i> —A revenue loss is negligible. A special investment credit of 20 percent is allowed for capital costs of wind-related energy equipment installed for use in a trade or business to generate electricity or to provide hot water. <i>Effective date</i> —Applies to property acquired or completed after December 31, 1976. Under a Senate floor amendment by Sen. Kennedy (adopted by voice vote), the provision does not apply to property placed in service after 1979. <i>Revenue effect</i> —Revenue loss is negligible.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
169. 12-percent investment credit for certain energy equipment				
a. Waste conversion equipment (includes equipment to use waste as a fuel, process waste into a fuel and sort and prepare waste for recycling and recycling equipment) (Sec. 2003 of Senate amendment, p. 845) (Sec. 421 of H.R. 6860, p. 81)	There are no tax provisions specifically relating to these categories of equipment.	Provides for 5-year amortization and a two-thirds investment credit for waste conversion equipment. (H.R. 6860 only)	A 12-percent investment would be available for waste conversion equipment.	
b. Organic fuel conversion equipment (includes equipment used to convert organic material directly into energy forms) (Sec. 2003 of Senate amendment, p. 845)	There are no tax provisions that relate specifically to this category of equipment.	<i>Effective date</i> —Applies to equipment constructed or acquired after March 17, 1975, and placed in service before January 1, 1981. <i>Revenue effect</i> —Loss is negligible. No provision in tax reform bill nor in energy tax bill (H.R. 6860).	<i>Effective date</i> —Applies to equipment constructed or acquired after December 31, 1976. Under Senate floor amendment by Senator Kennedy (agreed to by voice vote), the provision does not apply to property placed in service after 1979. <i>Revenue effect</i> —Revenue loss is negligible. An investment credit of 12 percent is provided for organic fuel conversion equipment.	
			<i>Effective date</i> —Effective for property acquired or constructed after December 31, 1976. Under a Senate floor amendment by Senator Kennedy (agreed to by voice vote), the provision does not apply to property placed in service after 1979. <i>Revenue effect</i> —Revenue loss is negligible.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill (H.R. 6860 only)	Senate amendment	Conference action
c. Railroad equipment (includes rolling stock, classification yards, communications systems and certain freight handling equipment) (Sec. 2003 of Senate amendment, p. 845) (Secs. 422-424 of H.R. 6860, pp. 88, 94 and 97)	Railroad rolling stock was eligible for five-year amortization through December 31, 1976. The investment credit is not available for equipment under an election for 5-year amortization. Alternatively, the railroad could take the investment credit and use ADR lives with accelerated depreciation. For communications systems, classification yard equipment and freight handling equipment, the taxpayer also may take the investment credit and use ADR guideline lives with accelerated depreciation.	Eligibility for the election for five-year amortization would be extended through December 31, 1979, for railroad rolling stock, and the election would be made available for equipment used in communications systems, classification yards and certain freight handling equipment. Equipment eligible for the five-year amortization election also would be eligible for a two-thirds investment credit.	A 12-percent investment credit would be made available for railroad rolling stock (including unit coal trains), communications equipment, classification yard equipment, and certain freight handling equipment placed in service after December 31, 1976.	
d. Deep mining coal equipment (Sec. 2003 of Senate amendment, p. 845) (Sec. 421 of H.R. 6860, p. 81)	No special provision.	<i>Effective date</i> —Continuation through 1979 of five-year amortization with the investment credit would reduce revenues by less than \$5 million each year. Eligibility of new types of qualified railroad equipment for five-year amortization would reduce revenues by less than \$5 million each year. <i>Revenue effect</i> —Gain of \$9 million in fiscal 1977; loss of \$14 million in fiscal 1978, and loss of \$78 million in fiscal 1981.	<i>Effective date</i> —Applies to property acquired or constructed after December 31, 1976. Under a floor amendment by Senator Kennedy (adopted by voice vote), the provision does not apply to property placed in service after 1979. <i>Revenue effect</i> —Loss of \$2 million in fiscal 1977, \$5 million in fiscal 1978, \$5 million in fiscal 1979, and \$3 million in fiscal 1980.	
		Includes five-year amortization for deep mining coal equipment. This equipment also eligible for two-thirds investment credit.	Allows a 12-percent investment credit for deep mining coal equipment. This provision covers depreciable equipment needed to reach underground coal deposits in slope mines, shaft mines or drift mines and to extract the coal and bring it to the surface.	
		<i>Effective date</i> —Applies to coal equipment constructed or acquired after March 17, 1975, and before January 1, 1981.	<i>Effective date</i> —Applies to equipment constructed or acquired after December 31, 1976. Under a floor amendment of Senator Kennedy (agreed to by voice vote), the provision does not apply to equipment placed in service after 1979.	
		<i>Revenue effect</i> —Gain of \$9 million in fiscal 1977; loss of \$14 million in fiscal 1978, and loss of \$78 million in fiscal 1981.	<i>Revenue effect</i> —Loss of \$4 million in fiscal 1977, \$11 million in fiscal 1978, and \$8 million in fiscal 1980.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill (H.R. 6860 only)	Senate amendment	Conference action
e. Coal liquefaction and gasification processing equipment (Sec. 2003 of Senate amendment, p. 845) (Sec. 421 of H.R. 6860, p. 81)	No special provision.	Includes five-year amortization for qualified equipment for processing coal into a liquid or gaseous state, and also makes it eligible for two-thirds investment credit.	Permits a 12-percent investment credit for the capital cost of depreciable machinery or equipment used for processing coal into a liquid or gas. This provision covers the range of liquids and gases which can be derived from coal (as well as usable byproducts), including low-BTU gas, high-BTU gas, synthetic crude oils and chemical feedstocks.	
f. Shale oil conversion equipment (Sec. 2003 of Senate amendment, p. 845) (Sec. 421 of H.R. 6860, p. 81)	No special provision.	<i>Effective date</i> —Both provisions apply to equipment placed in service after March 17, 1975, and before January 1, 1981. <i>Revenue effect</i> —Revenue loss is negligible. Includes five-year amortization and two-thirds investment credit for machinery or equipment necessary to reach, extract and convert shale rock into raw shale oil. It does not cover expenditures for refining crude shale oil. <i>Effective date</i> —Applies to equipment placed in service after March 17, 1975, and before January 1, 1981. <i>Revenue effect</i> —Revenue loss is negligible.	<i>Effective date</i> —Applies to property constructed or acquired after December 31, 1976, and placed in service before January 1, 1982. <i>Revenue effect</i> —Revenue loss is negligible. Provides a 12-percent investment credit for the type of equipment covered under the House bill.	
g. TVA compensatory adjustments (Sec. 2003 of Senate amendment, p. 845)	TVA is a wholly-owned government corporation that is not taxable. It is required to make annual payments to the Federal Government as a return on the appropriated Federal funds invested in power facilities.	No provision in tax reform bill nor in energy tax bill.	<i>Effective date</i> —Applies to equipment constructed or acquired after December 31, 1976. Under a floor amendment by Senator Kennedy (adopted by voice vote), the provision does not apply to equipment placed in service after 1979. <i>Revenue effect</i> —Loss of \$2 million in fiscal 1977, \$5 million in fiscal 1978, and \$3 million in fiscal 1980. Allows TVA to reduce its annual payment to the Federal Government by an amount equal to a 12-percent investment credit earned on investments in equipment for organic fuel conversion, coal processing and shale oil conversion. Unused credits may be carried forward to the next fiscal year. <i>Effective date</i> —Applies to payments made by TVA to the Federal Government beginning with fiscal year 1977 (October 1, 1976). <i>Revenue effect</i> —Involves no tax revenues, but would reduce payments by TVA to the Federal Government by less than \$5 million.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill (H.R. 6860 only)	Senate amendment	Conference action
170. Deduction for geothermal energy development costs (Sec. 2004 of Senate amendment, p. 859)	It is unclear whether a depletion deduction or the intangible drilling cost deduction is allowable for the production of geothermal steam and associated geothermal resources.	No provision in tax reform bill nor in energy tax bill.	Allows current expensing of intangible drilling costs for wells drilled for geothermal steam and associated geothermal resources. Also provides a deduction (in the nature of, but in lieu of, a depletion deduction) for 22 percent of the gross income from the property for production of geothermal steam and associated geothermal resources, but not to exceed 50 percent of taxable income from this property.	
171. Denial of investment credit for portable air conditioners and heaters (Sec. 2005 of Senate amendment, p. 864) (Sec. 431 of H.R. 6860, p. 99)	Central heating and air conditioning systems are generally considered part of a building's structure and are not eligible for the investment credit. However, portable, self-contained air conditioning and heating units are eligible for the investment credit, if they are not permanently attached to a building or structure.	Provides that portable, self-contained air conditioning and heating units would no longer be considered to be qualifying property for the investment credit.	<i>Effective date</i> —Effective for taxable years beginning after 1976. <i>Revenue effect</i> —Loss of \$7 million in fiscal 1977, \$15 million in fiscal 1978, and \$21 million in fiscal 1981. Same as House bill.	
172. Study of recycling incentives (Sec. 2006 of Senate amendment, p. 864) (Floor amendment by Senators Hart (of Colorado) and Durkin, adopted by voice vote)	No provision for a recycling tax credit.	<i>Effective date</i> —Applies to property placed in service after date of enactment. <i>Revenue effect</i> —Gain is negligible. No provision in tax reform bill nor in energy tax bill.	<i>Effective date</i> —Applies to property placed in service after December 31, 1976. <i>Revenue effect</i> —Gain is negligible. Treasury, with the assistance of EPA, is instructed to study and report on the proper role of the Government in encouraging recycling of solid waste materials, including feasibility of tax incentives or disincentives for that purpose. <i>Effective date</i> —Report to be submitted to the President and the Congress not later than 18 months after date of enactment.	

TITLE XX—ENERGY-RELATED PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
173. Repeal of excise tax on buses and bus parts (Sec. 2007 of Senate amendment, p. 865) (Sec. 221 of H.R. 6860, p. 43)	There is a 10-percent manufacturers excise tax on the sale of buses weighing more than 10,000 pounds, except for local transit and school buses. The manufacturers excise tax on bus parts and accessories is 8 percent. (These revenues go into the Highway Trust Fund through September 30, 1979 and are to be reduced to 5 percent after the scheduled expiration date of the Highway Trust Fund on that date.)	Repeals the excise tax on buses used in "public passenger transportation." (H.R. 6860 only)	The excise tax on all buses and the excise tax on bus parts and accessories are repealed.	
174. Excise tax on rerefined lubricating oil (Sec. 2008 of the Senate amendment, p. 867) (Sec. 223 of H.R. 6860, p. 47)	New lubricating oil that is mixed with waste or rerefined oil is subject to the 6-cents-a-gallon manufacturers excise tax on lubricating oil. There is no refund of the tax for nonhighway uses of the new oil portion of the oil mixture.	<i>Effective date</i> —Applies to sales on or after date of enactment. <i>Revenue effect</i> —Revenue loss of \$9 million in fiscal 1977, \$8 million in fiscal 1978 and \$5 million in fiscal 1981. Exempts new oil from the excise tax when it is mixed with 45 percent or more of waste or rerefined oil.	<i>Effective date</i> —Applies to sales after date of enactment. <i>Revenue effect</i> —Loss of \$22 million in fiscal 1977, \$20 million in fiscal 1978, and \$12 million in fiscal 1981. Same provision as House bill.	
175. Exemption from excise tax on special motor fuels in certain nonhighway use (Sec. 2009 of Senate amendment, p. 868)	Nondiesel special motor fuels used by nonhighway vehicles are subject to a 2-cents-per-gallon retailers excise tax. Diesel fuel used by a nonhighway vehicle is exempt from tax.	<i>Effective date</i> —Effective for sales after March 17, 1975. <i>Revenue effect</i> —Revenue loss of \$4 million in fiscal 1977 and \$3 million in each subsequent fiscal year which would otherwise go to the Highway Trust Fund (through Sept. 30, 1979).	Provides an exemption (through a refund or credit) for nonhighway uses of nondiesel special motor fuels, except motorboat and noncommercial aviation uses.	<i>Effective date</i> —Effective for sales after June 30, 1976. <i>Revenue effect</i> —Same as for House bill.
176. Duty-free exchange of crude oil (Sec. 2010 of Senate amendment, p. 869)	All petroleum and petroleum products imported into the United States are subject to import duties which vary according to the grade of petroleum or type of product.	No provision in tax reform bill nor in energy tax bill. No provision in tax reform bill nor in energy tax bill.	Provides an exemption (through a refund or credit) for nonhighway uses of nondiesel special motor fuels, except motorboat and noncommercial aviation uses. <i>Effective date</i> —Effective for use after June 30, 1976. <i>Revenue effect</i> —Loss is negligible.	

TITLE XXI—TAX-EXEMPT ORGANIZATIONS

Item	Present law	House bill	Senate amendment	Conference action
<p>177. Modification of foundation self-dealing rules in 1969 Act relating to leased property (Sec. 2101 of Senate amendment, p. 871)</p>	<p>Self-dealing rules generally prevent sales, exchanges, or leases of property between private foundations and disqualified persons. There are transitional rules for certain sales of excess business holdings by foundations and continuation of certain leases. There is no transition rule which permits a sale of leased property by a foundation to a disqualified person.</p>	No provision.	<p><i>Effective date</i>—Applies to articles entered, or withdrawn from warehouse, for consumption after January 1, 1977.</p> <p>Permits a foundation to sell, exchange, or otherwise dispose of certain property to a disqualified person where the property is presently being leased to the disqualified person (pursuant to a binding contract which was in effect on October 9, 1969) if the foundation receives fair market value for the property.</p> <p><i>Effective date</i>—Applies to dispositions after date of enactment and prior to January 1, 1978.</p>	<p><i>Effective date</i>—Applies to articles entered, or withdrawn from warehouse, for consumption after January 1, 1977.</p>
<p>178. Private foundation set-asides (Sec. 2102 of the Senate amendment, p. 872)</p>	<p>An amount "set aside" by a foundation for a special project may be treated as a qualifying distribution for the payout requirements only if approved in advance by the IRS. The foundation must establish that set-asides will be paid out for a specific project within 5 years and that the project can better be accomplished by set-aside than by immediate payment.</p>	No provision.	<p><i>Revenue effect</i>—Negligible loss in fiscal 1977 and 1978.</p> <p>As an alternative to present set-aside rules, permits set-asides without advance IRS approval under temporary, relaxed rules which require principally that—</p> <ol style="list-style-type: none"> (1) set-aside be for a project which will not be completed before end of year; (2) foundations distribute in each year after 12/31/75 (or if later, after end of fourth taxable year following its creation) not less than required payout; and (3) during 4 years prior to first taxable year beginning after 12/31/75 (or if later, after end of fourth taxable year following its creation) the foundation has distributed an aggregate amount not less than the sum of a percentage of the regular required payout increasing by 20% annually. 	<p><i>Revenue effect</i>—Negligible loss in fiscal 1977 and 1978.</p>
<p>179. Mandatory payout rate for private foundations (Sec. 2103 of the Senate amendment, p. 876)</p>	<p>Private foundation must distribute for charitable, etc., purposes the greater of all its adjusted net income or an annually determined variable percentage of its noncharitable assets. The percentage is set at 6.75 percent for taxable years beginning in 1976.</p>	No provision.	<p><i>Effective date</i>—Applies to taxable years beginning on or after January 1, 1975.</p> <p><i>Revenue effect</i>—Loss is negligible.</p> <p>Reduces the mandatory payout requirement to 5 percent and provides that this percentage is to be permanent.</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	<p><i>Effective date</i>—Applies to taxable years beginning on or after January 1, 1975.</p>

TITLE XXI—TAX-EXEMPT ORGANIZATIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
180. Extension of time to amend charitable remainder trust governing instrument (Sec. 2104 of Senate amendment, p. 877)	Under the Tax Reform Act of 1969, in order for an estate tax charitable deduction to be allowable for the bequest of a remainder interest to charity, the remainder interest must be in the form of a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund. Special transitional rules permit post-death modifications of wills and trusts created before September 21, 1974, which contain bequests of remainder interests to charity to conform to the new requirements of the Tax Reform Act of 1969, if the modifications were made before December 31, 1975.	No provision. (However the House did pass a two-year extension until December 31, 1977, in a separate bill—H.R. 9889.)	Extends time for modification of bequests of remainder interests to charity to qualify for estate tax charitable deduction until December 31, 1977, and also allows wills and trusts created after September 21, 1974, and before December 31, 1977, to qualify for the extension. <i>Effective date</i> —Applies to decedents dying after December 31, 1969. <i>Revenue effect</i> —Loss of \$5 million in both fiscal 1977 and 1978.	
181. Reduction of private foundation excise tax on investment income (Sec. 2105 of Senate amdt., p. 878)	A 4-percent tax is imposed on the net investment income of private foundations.	No provision.	Reduces rate of tax from 4 percent to 2 percent. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Loss of \$35 million in fiscal 1978, \$36 million in fiscal 1979, and \$58 million in fiscal 1981.	None
182. Unrelated trade or business income of trade shows, State fairs, etc. (Sec. 2106 of Senate amdt., p. 879)	Tax-exempt organizations are taxed on their "unrelated trade or business income". "Unrelated trade or business income" includes certain income from fairs and expositions sponsored by tax-exempt organizations and rental income from display space leased at a convention or trade show if the exhibitor is permitted to sell his wares at the convention or trade show.	No provision.	Exempts from the unrelated business income tax the income from fairs and expositions of an exempt organization, which is charitable, social welfare, or agricultural and which operates a public entertainment activity that meets certain conditions. The organization must also regularly conduct, as one of its substantial exempt purposes, a fair or exposition which is both agricultural and educational. Exempts from the unrelated business income tax the income from conventions and trade shows of certain exempt organizations (generally, unions or trade associations) which regularly conducts as one of its exempt purposes a convention or trade show activity which stimulates interest in, and demand for, an industry's products in general. There are also a series of conditions which must be met by a qualifying convention and trade show activity. <i>Effective date</i> —Applies to income from fairs and expositions in taxable years beginning after December 31, 1962, and to income from conventions and trade shows in taxable years beginning after December 31, 1969. <i>Revenue effect</i> —Loss is negligible.	None

TITLE XXI—TAX-EXEMPT ORGANIZATIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
183. Declaratory judgments regarding tax-exempt status of charitable, etc., or organizations (Sec. 1202 of the House bill, p. 302) (Sec. 2107 of the Senate amendment, p. 883)	The Tax Court can hear declaratory judgment suits only on the tax status of employee retirement plans. In no other case may an individual or an organization seek a declaratory judgment as to an organization's tax-exempt status.	The Federal district courts and the United States Tax Court are granted jurisdiction in a suit brought by an organization in an actual controversy in a case involving an IRS determination (or failure to make a determination) with respect to the organization's status as tax exempt, as a qualified charitable contribution donee, as a private foundation, or as a private operating foundation.	Same as House bill, except jurisdiction granted only to the Federal district court for the District of Columbia, the U.S. Court of Claims, and U.S. Tax Court.	
184. Alcoholism trust fund (Sec. 2108 of Senate amendment, p. 890) (Floor amendment by Senator Hathaway, adopted by 69-0)	Excise taxes are imposed on alcohol, wine and beer, but there is no provision for any trust fund.	<i>Effective date</i> —Applies to pleadings filed more than 1 year after the date of enactment but only with respect to IRS determinations (or requests for determinations) made after the date of enactment. <i>Revenue effect</i> —This is not expected to have any revenue effect. No provision.	<i>Effective date</i> —Applies to pleadings filed more than 6 months after date of enactment but only with respect to IRS determinations (or requests for determinations) made after January 1, 1976. <i>Revenue effect</i> —This is not expected to have any revenue effect. Establishes a trust fund to pay 50 percent of the cost of occupational alcoholism programs for employed persons by HEW through the National Institute for Alcohol Abuse and Alcoholism. Any organization applying may receive at most matching funds for new programs. Up to 10 percent of the fund is for administration. Remaining funds may be used for treatment and prevention of underserved populations. Funds to be provided by appropriation acts; no funds earmarked.	
185. Exclusion of certain companion sitting placement services from employment tax requirements (Sec. 2109 of Senate amendment, p. 893) (Floor amendment by Senator Allen, adopted by voice vote)	Certain tax payment and reporting requirements are placed upon employers in regard to F.I.C.A. (social security) and F.U.T.A. (unemployment) taxes and withholding at the source on wages.	No provision.	<i>Effective date</i> —September 30, 1977. <i>Revenue effect</i> —None. Excepts companion sitter placement services from the definition of "employer" for purposes of Federal employment taxes if the service does not pay or receive the salary or wages of the sitters and is compensated by the sitters or the persons who employ them on a fee basis. <i>Effective date</i> —Applies to taxable years beginning after 1975. <i>Revenue effect</i> —Loss of \$3 million in fiscal 1977, \$5 million in fiscal 1978, and \$5 million in fiscal 1981.	

TITLE XXI—TAX-EXEMPT ORGANIZATIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
186. Minimum distribution requirements to include miscellaneous distributions (Sec. 2110 of Senate amendment, p. 884) (Floor amendment by Senator Fong, adopted by voice vote)	<p>Qualifying distributions of private foundations include only amounts expended in furtherance of charitable purposes. A private foundation must exercise expenditure responsibility with respect to grants or contributions to organizations other than public charities. Expenditure responsibility requires a foundation to exert all reasonable efforts and to establish adequate procedures to see that the grant is properly used and to obtain reports on the grant and to make reports to the IRS. Also, if an amount is spent for a purpose other than a charitable purpose, it will be a taxable expenditure.</p>	<p>No provision.</p>	<p>Provides that qualifying distributions include contributions to an unincorporated association or other organization by a private foundation for charitable, civic, or community activities to the extent such contributions do not exceed \$200 per donee organization and the amount contributed is not to defray the expense of an activity which is illegal or in violation of public policy.</p> <p>Provides that in determining whether expenditure responsibility has been exercised, the size of the grant is to be taken into account.</p> <p><i>Effective date</i>—Applies to taxable years beginning after date of enactment with respect to contributions made after such date.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS

Item	Present law	House bill (H.R. 14844 only)	Senate amendment	Conference action
187. Allowance of credit against the estate tax (Sec. 2201(a) of Senate amendment, p. 896) of H.R. 14844, p. 5)	The estate of each decedent who was a resident or citizen of the U.S. is entitled to an exemption of \$60,000 for estate tax purposes. In addition, an exemption of \$30,000 is allowed for gift tax purposes.	Provides a unified credit in lieu of the present exemptions for estate and gift taxes. The amount of the credit is \$30,000 for estates of decedents dying in 1977 and increases \$5,000 each year until 1979 when the credit is \$40,000 (equivalent to an exemption of \$153,750).	Provides a credit in lieu of the present exemption for estate tax purposes, but retains the present gift tax exemption. The amount of the credit is \$30,000 for estates of decedents dying in 1977 and increases \$5,000 each year until 1981 when the credit is \$50,000 (equivalent to an exemption of \$197,000).	
188. Unification of estate and gift tax rates (Sec. 2(a)(1) of H.R. 14844, p. 2)	An estate tax is imposed upon transfers at death and a gift tax is imposed on gifts during lifetime. Each tax has a separate rate schedule with the gift tax rate schedule being three-fourths of the estate tax rate schedule for corresponding brackets.	<i>Effective date</i> —Effective for estates of decedents dying after December 31, 1976, and gifts made after that date with a 3-year phase-in as described above. <i>Revenue effect</i> —Loss of \$93 million in fiscal 1977, \$1,146 million in fiscal 1978, and \$1,988 million in fiscal 1981.	<i>Effective date</i> —Effective for decedents dying after December 31, 1976, with a 5-year phase-in as described above. <i>Revenue effect</i> —Loss in negligible in fiscal 1977, \$851 million in fiscal 1978, and \$1,775 million in fiscal 1981.	
189. Transfers made within 3 years of death (Sec. 2(a)(5) of H.R. 14844, p. 7)	Transfers made within 3 years of death are presumed to be made in "contemplation of death," and included in the decedent's gross estate unless the executor can prove to the contrary.	Eliminates the contemplation of death presumption and provides for the inclusion in the decedent's gross estate of all gifts made within the 3-year period prior to the decedent's death. <i>Effective date</i> —Effective for gifts made after December 31, 1976. <i>Revenue effect</i> —Gain is negligible.	No provision.	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House bill	Senate amendment	Conference action
190. Gross-up for gift taxes (Sec. 2(a)(5) of H.R. 14844, p. 6)	The tax paid with respect to a gift is not included in the estate or gift tax base. Thus, an amount equal to the gift tax will be removed from a decedent's gross estate and allowed as a credit against estate tax if the gift is included in the gross estate even though the transfer is a "death-bed transfer." However, if the transfer had not been made during lifetime, the entire amount is included in the decedent's gross estate.	Requires the gift tax on gifts made within 3 years of the decedent's death to be included (or "grossed-up") in the decedent's gross estate. <i>Effective date</i> —Effective for gifts made after December 31, 1976. <i>Revenue effect</i> —Gain is negligible.	No provision.	
191. Increase in estate tax marital deduction (Sec. 2201(b) of Senate amendment, p. 903) (Sec. 3(a) of H.R. 14844, p. 20)	The estate of each decedent is permitted a deduction for property passing to a surviving spouse up to one-half of the adjusted gross estate.	Increases the maximum estate tax marital deduction to the greater of \$250,000 or 1/2 of the decedent's adjusted gross estate. <i>Effective date</i> —Effective for estates of decedents dying after December 31, 1976. <i>Revenue effect</i> —Loss is negligible in fiscal 1977, \$153 million in fiscal 1978, and \$171 million in fiscal 1981.	Same as House bill.	
192. Increase in gift tax marital deduction (Sec. 3(b) of H.R. 14844, p. 22)	In the case of gifts, the maximum allowable deduction is one-half of the value of the property transferred to the spouse.	Provides an unlimited marital deduction for the first \$100,000 of lifetime transfers to a spouse. Thereafter, the deduction allowed is 50 percent of gifts in excess of \$200,000. <i>Effective date</i> —Effective for gifts made after December 31, 1976. <i>Revenue effect</i> —Loss is negligible.	No provision.	
193. Joint interests (Sec. 3(c) of H.R. 14844, p. 23)	The entire value of property owned in joint tenancy is included in the decedent's gross estate except for the portion of property which is attributable to the consideration furnished by the survivor.	Replaces the "consideration furnished test" with a fractional interest rule in certain cases where property is held by husband and wife with rights of survivorship. Under the fractional interest rule, where a joint tenancy is created by a transfer subject to gift tax at the time of creation, the property is then treated as belonging 50 percent to each spouse for estate tax purposes. <i>Effective date</i> —Effective for joint interests created after December 31, 1976. <i>Revenue effect</i> —Loss is negligible.	No provision.	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House bill (H.R. 14844 only)	Senate amendment	Conference action
194. Special valuation for certain types of property. (Sec. 2201(c) of Senate amendment, p. 904) (Sec. 4 of H.R. 14844, p. 26)	<p>The value of the property included in the gross estate of the decedent is its fair market value at the date of the decedent's death (or at the alternate valuation date). One of the most important factors in determining fair market value is the "highest and best use" to which the property can be put.</p>	<p>Provides that, if certain conditions are met, the executor may elect to value qualified real property included in the decedent's gross estate on the basis of such property's value in its current use rather than on the basis of its highest and best use. Qualified real property includes property used for farming or other closely held business use. This special valuation's gross estate by more than \$500,000. Also, provides specific valuation methods for qualifying real property.</p> <p>In general, the tax benefits are recaptured if the property is disposed of to nonfamily members or ceases to be used for farming or closely held business purposes within 15 years after the death of the decedent (with a phase-out of the amount recaptured over the last 5 years).</p>	<p>Same as House bill except that (1) the special valuation is available for woodland, open pastoral space and historical sites in addition to farms (but not other closely held businesses), and (2) the special valuation can reduce the value of the decedent's gross estate by \$1 million rather than \$500,000.</p>	
(Sec. 2720 of Senate amendment, p. 1061) (Floor amendment by Senator Mathias, adopted by voice vote)			<p>A floor amendment (by Senator Mathias), (1) modifies the requirements for historical sites to allow a historical site to qualify if the value is at least 25 percent of the decedent's adjusted gross estate, (2) strikes "pastoral" from open pastoral space, and (3) allows both the time the decedent owned the property and the time a member of his family owned the property to count for purposes of satisfying the ownership and qualified use requirements (5 out of the 8 years preceding the decedent's death).</p> <p><i>Effective date</i>—Same as House bill</p> <p><i>Revenue effect</i>—Loss is negligible in fiscal 1977, \$18 million in fiscal 1978, and \$22 million in fiscal 1981.</p>	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House bill (H.R.14844 only)	Senate amendment	Conference action
195. Extension of time for payment of estate tax (Sec. 2201(d) of Senate amendment, p. 916). (Sec. 5(a) of H.R. 14844, p. 42)	Generally, the estate tax must be paid nine months after the decedent's death. However, there are two provisions which permit the estate tax to be paid over a period of up to 10 years. In order to qualify under the first provision, the value of the closely held business must exceed 35 percent of the value of the gross estate or 50 percent of the taxable estate of the decedent. In order to qualify under the second provision, the executor must show that payment on the original due date would cause "undue hardship."	Provides for extended payments during a 15-year period for the estate tax attributable to a farm or other closely held business. In order to qualify, the farm or other closely held business must constitute at least 65 percent of the adjusted gross estate. No tax (i.e., only interest) must be paid during the first 5 years and thereafter the tax is payable in equal installments over the next 10 years. A special 4 percent interest rate is provided for the estate tax attributable to the first \$1 million of farm or other closely held business property. Substitutes a "reasonable cause" standard for the ten-year discretionary extension of estate tax instead of the existing "undue hardship" standard. A special lien is provided for payment of the deferred taxes and, where this lien procedure is followed, the executor is discharged from personal liability.	Same as House bill except that (1) in order to qualify, the value of the farm or closely held business must exceed 35 percent of the value of the gross estate or 50 percent of the taxable estate of the decedent, (2) the tax is payable in 12 annual installments beginning at the end of the 3rd year following the due date for the estate tax return, and (3) the special interest rate is 6 percent.	
196. Redemption of stock to pay estate tax (Sec. 5(e) of H.R. 14844, p. 65)	Stock in a closely held corporation that is redeemed within 4 years of the decedent's death is taxed as capital gain rather than as dividend income. To qualify, the value of the decedent's stock in the closely held business must be either 35 percent of the gross estate or 50 percent of the taxable estate. The value of the redeemed stock qualifying for this treatment cannot exceed the sum of all death taxes plus funeral and administration expenses.	Requires that, in order to qualify for capital gains treatment, the value of the decedent's stock of the closely held corporation must exceed 65 percent of the value of the adjusted gross estate. Limits the stock that can qualify for capital gains treatment to stock which is redeemed from a shareholder whose interest in the estate is reduced (either directly or through a binding obligation to contribute) by the payment of the death taxes and funeral and administration expenses. Extends the time for redemption to 15 years in cases where an election has been made for the deferred payment of taxes. <i>Effective date</i> —Effective with respect to decedents dying after December 31, 1976. <i>Revenue effect</i> —Gain is negligible.	Same as House bill. Same as House bill. Same as House bill. <i>Revenue effect</i> —Loss is negligible in fiscal 1977, \$23 million in fiscal 1978 and \$31 million in fiscal 1981. No provision.	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House bill (H.R. 14844 only)	Senate amendment	Conference action
197. Carryover of basis of property (Sec. 6 of H.R. 14844, p. 68)	Generally, the cost or other basis of property acquired from or passing from a decedent is "stepped-up" to its fair market value at the date of death (or the alternative valuation date). However, where property is transferred by gift, the basis of the property in the hands of the donee is generally the same as the donor's basis (i.e., the donor's basis is "carried over" to the donee).	Provides that the basis of most property acquired from or passing from a decedent who dies after December 31, 1976, is to be the same as the decedent's basis immediately before his death (with certain adjustments). The aggregate bases of all carryover basis property may be increased to a minimum of \$60,000. In addition, a \$10,000 exemption is provided for household and personal effects of the decedent.	No provision.	
		<i>Effective date</i> —Effective for property passing from decedents dying after December 31, 1976.		
		<i>Revenue effect</i> —Gain is negligible in fiscal 1977, \$18 million in fiscal 1978 and \$479 million in fiscal 1981.		
198. Generation-skipping transfers (Sec. 2202 of Senate amendment, p. 931) (Sec. 7 of H.R. 14844, p. 83)	A gift or estate tax is generally imposed upon the transfer of property by gift or by reason of death. However, the termination of an interest of a beneficiary (who is not the grantor) in a trust, life estate, or similar arrangement is not a taxable event unless the beneficiary under the trust has a general power of appointment with respect to the trust property.	Imposes a tax in the case of generation-skipping transfers under a trust or similar arrangement. An exclusion is provided for transfers to a grandchild of the grantor of the trust to the extent the total transfers per child do not exceed \$1 million.	Same as House bill, except that no exclusion is provided for transfers to a grandchild of the grantor.	
		<i>Effective date</i> —In general, effective with respect to generation-skipping transfers which occur after April 30, 1976.	<i>Effective date</i> —In general, same as H.R. 14844.	
		However, the tax does not apply in the case of transfers: (a) under irrevocable inter vivos trusts in existence on April 30, 1976, or (b) in the case of decedents dying before January 1, 1978, pursuant to a will (or revocable trust) which was in existence on April 30, 1976, and which was not amended at any time after that date. The 1982 date is extended in certain cases where the testator was incompetent to change his will.	However, the tax does not apply in the case of transfers: (a) under irrevocable inter vivos trusts in existence on April 30, 1976, or (b) in the case of decedents dying before January 1, 1978, pursuant to a will (or revocable trust) which was in existence on April 30, 1976, and which was not amended (in certain respects) at any time after that date. The 1978 date is extended in certain cases where the testator was incompetent to change his will.	
		<i>Revenue effect</i> —Gain is negligible through fiscal 1981. When fully phased in the gain is \$130 million per year.	<i>Revenue effect</i> —Gain is negligible through fiscal 1981. When fully phased in, the gain is \$350 million per year.	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House bill (H.R. 14844 only)	Senate amendment	Conference action
<p>199. Orphans' exclusion (Sec. 8 of H.R. 14844, p. 105)</p>	<p>There is no provision which allows an estate tax deduction for the value of any interest in property which passes or has passed from a decedent to an orphaned child.</p>	<p>Provides an estate tax deduction for amounts which pass to a child of the decedent if the child is under 21 years of age and there is no surviving spouse (or known parent) of the decedent. The maximum deduction under this provision is \$5,000 for each year the child is under age 21.</p>	No provision.	
<p>200. Requirement that IRS furnish a statement explaining estate or gift valuation (Sec. 9(a) of H.R. 14844, p. 107)</p>	<p>The IRS can require that the executor submit a copy of any appraisals he has obtained in determining the value of property included in the decedent's gross estate. However, there is no administrative provision which provides an affirmative requirement on the part of the IRS to disclose the method or basis used by the Service in arriving at its determination of value.</p>	<p><i>Effective date.</i>—Effective for estates of decedents dying after December 31, 1976.</p> <p><i>Revenue effect.</i>—Loss is negligible.</p> <p>Provides that if the IRS makes a determination of the value of any item of property for purposes of the estate or gift tax laws, the executor or donor may request that the IRS furnish a written statement explaining the basis on which the valuation was determined.</p>	No provision.	
<p>201. Gift tax returns (Sec. 9(b) of H.R. 14844, p. 109)</p>	<p>Generally gift tax returns must be filed for each calendar quarter in which a donor transfers by gift an amount in excess of the annual \$3,000 exclusion per donee.</p>	<p><i>Effective date.</i>—Effective for estates of decedents dying after December 31, 1976, and gifts made after December 31, 1976.</p> <p><i>Revenue effect.</i>—No revenue effect.</p> <p>Provides that a gift tax return must be filed on a quarterly basis only when the sum of (1) taxable gifts made during the calendar quarter plus (2) all other taxable gifts made during the calendar year for which a return has not been filed, exceeds \$25,000.</p> <p><i>Effective date.</i>—Effective for gifts made after December 31, 1976.</p> <p><i>Revenue effect.</i>—Loss is negligible.</p>	No provision.	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House bill (H.R. 14844 only)	Senate amendment	Conference action
202. Public index of filed tax liens (Sec. 9(c) of H.R. 14844, p. 111)	In general, a Federal tax lien takes priority over other interests in property subject to the lien which are held by purchasers, holders of security interests and certain other persons if notice of the tax lien has been appropriately filed before such interests were acquired.	Provides that a Federal tax lien is not effective over other interests unless the fact of filing is entered and recorded on a public index at the place of filing in such a manner that a reasonable inspection would disclose the existence of the lien. <i>Effective date</i> —Effective on the 90th day after enactment in the case of notices filed on or after the date of enactment. Effective on the 180th day after enactment in the case of liens filed before the date of enactment. <i>Revenue effect</i> —No revenue effect.	No provision.	
203. Inclusion of stock in decedent's estate where decedent retains voting rights (Sec. 10(a) of H.R. 14844, p. 112)	An inter vivos transfer made by the decedent is included in his gross estate if he retained for his lifetime either the right to possess or enjoy the property or the right to designate the person who will possess or enjoy the property. In <i>U.S. v. Byrum</i> , the U.S. Supreme Court held that the retention of the power to vote stock in a closely held corporation did not require the stock to be included in the decedent's gross estate.	Requires the inclusion of stock in the gross estate of the decedent if the decedent retained the voting rights in the stock. <i>Effective date</i> —Effective for transfers made after June 22, 1976. <i>Revenue effect</i> —Gain is negligible.	No provision.	
204. Disclaimers (Sec. 10(b) of H.R. 14844, p. 113)	Several estate and gift tax provisions provide rules governing the tax consequences of an effective disclaimer. However, the provisions do not contain uniform rules on what constitutes an effective disclaimer for estate and gift tax purposes.	Provides a single set of definitive rules for disclaimers for purposes of estate, gift, and generation-skipping transfer taxes. <i>Effective date</i> —Effective generally for transfers creating an interest in the person disclaiming made after December 31, 1976. <i>Revenue effect</i> —No revenue effect.	No provision.	
205. Estate and gift tax exclusions for qualified retirement benefits (Sec. 10(c) (1)-(4) of H.R. 14844, p. 116)	The value of a survivor's interest in an annuity purchased by the decedent is included in the decedent's gross estate. However, an exclusion for estate and gift tax purposes is provided for the value of the portion of a survivor's annuity attributable to employer contributions to a qualified retirement plan.	Excludes from the gross estate a survivor's interest in an H.R. 10 plan and an individual retirement account. Removes the exclusion for all lump-sum distributions of the survivor's interest. <i>Effective date</i> —Effective for decedents dying and gifts made after December 31, 1976. <i>Revenue effect</i> —Loss is negligible.	No provision.	

TITLE XXII—ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present law	House Bill	Senate amendment	Conference action
206. Gift tax treatment of certain community property (Sec. 2203 of Senate amendment, p. 950) (Sec. 10(c) (5) of H.R. 14844, p. 120)	In community property States, no portion of a survivor annuity in a qualified plan attributable to employer contributions is includible in the gross estate of the employee's spouse if the spouse predeceased the employee. However, for gift tax purposes, if an employee predeceases his spouse in a community property State, the surviving spouse is treated as having made a gift of 1/2 of any benefits payable to other beneficiaries.	Provides a gift tax exclusion (similar to the existing estate tax exclusion) for the value, to the extent attributable to employer contributions, of any interest of an employee's spouse in a specified annuity contract, or retirement plan payments. (H.R. 14844 only)	Same as House bill.	
207. Income tax treatment of certain selling expenses of estates and trusts (Sec. 10(d) of H.R. 14844, p. 121)	An estate or trust is not permitted to deduct any item for income tax purposes if that same item is deducted for estate tax purposes. However, a number of courts have held that items which reduce the sales price, such as selling expenses, can be deducted for estate tax purposes as well as reduce the sales price for income tax purposes.	Provides that an item may not be used to offset the sales price for income tax purposes if the same item is deducted for estate tax purposes. <i>Effective date</i> —Effective for taxable years ending after the date of enactment. <i>Revenue effect</i> —Gain is negligible.	No provision. <i>Effective date</i> —Same as House bill. <i>Revenue effect</i> —Loss is negligible.	
208. Estate tax credit for payment in kind (Sec. 2204 of Senate amendment, p. 951)	In addition to legal tender, it is lawful for the Secretary of the Treasury to accept checks or money orders in payment of tax liability. There is no provision authorizing the Secretary of Treasury to accept other forms of payment, such as the conveyance of real property.	No provision.	Permits the Secretary of Treasury to accept the conveyance of real property located within the boundaries of the Toiyabe National Forest as payment of estate tax imposed on the estate of La Vere Redfield. (Floor amendment by Senator Laxalt, adopted by voice vote) <i>Effective date</i> —Effective on the date of enactment of this Act. <i>Revenue effect</i> —No revenue effect.	

TITLE XXIII—OTHER AMENDMENTS

Item	Present law	House bill	Senate amendment	Conference action
209. Outdoor advertising displays (Sec. 2501 of Senate amendment, p. 952)	If real property is involuntarily converted as the result of a condemnation, and the taxpayer uses the proceeds to obtain "like kind" replacement property, gain on the conversion is not recognized. There is conflicting authority as to whether billboards and other outdoor advertising displays qualify as real property for purposes of this non-recognition rule.	No provision.	An irrevocable election is provided for taxpayers to treat qualifying outdoor advertising displays as real property. In addition, replacement real property will be considered as "like kind" even though the replacement property is a different type of real property interest than the taxpayer held in an outdoor advertising display which was involuntarily converted.	
210. Tax treatment of large cigars (Sec. 2302 of Senate amendment, p. 954)	Provides a bracket system of the excise tax on certain cigars, under which the rate varies depending on the amount of the intended retail price of the cigar. The maximum tax is \$20 per thousand on cigars retailing for 20 cents or more each.	No provision, except a similar provision has been reported by the Ways and Means Committee (H.R. 8125).	<i>Effective date</i> —Effective for taxable years beginning after 1970.	<i>Revenue effect</i> —There is no revenue effect.
211. Gain from sales or exchanges between related parties (Sec. 2303 of the Senate amendment, p. 956)	Gain from a sale or exchange of depreciable property is denied capital gain treatment if the sale is between a husband and wife, or between an individual and a corporation (if over 80 percent of the value of the corporation's stock is owned by the individual, his spouse, and his minor children or grandchildren). The courts have held that this provision does not apply to gain from the sale of depreciable property between 2 corporations controlled by the same individual (or his family).	No provision.	<i>Revenue effect</i> —Loss of \$7 million each year in fiscal 1977, 1978, and 1981.	Modifies present law in two primary ways: (1) Broadens the scope of this provision to cover a sale or exchange of depreciable property between commonly-controlled corporations; and (2) Broadens the constructive ownership rules which trigger the restrictions under this provision to include the taxpayer's parents, his adult children, plus any trust, estate or partnership in which the taxpayer is a beneficiary or partner.
			<i>Effective date</i> —Effective for sales or exchanges after date of enactment, except those sales made pursuant to a binding contract existing before the date of enactment.	<i>Revenue effect</i> —Gain is negligible.

TITLE XXIII—OTHER AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
212. Uniformed Services Health Professions Scholarships (Sec. 2304 of Senate amendment, p. 957)	Under IRS rulings, amounts received under the Armed Forces Health Professions Scholarship Program (and similar programs) are taxable as compensation for future employment (because a special 3-year legislative exemption ended Dec. 31, 1975).	No provision.	Excludes from income in 1976, 1977, 1978 and 1979, amounts received under the Armed Forces Health Professions Scholarship Program (and similar programs) by members of the Uniformed Services participating in the programs in 1976. <i>Effective date</i> —Applies to 1976 participants from Jan. 1, 1976, through Dec. 31, 1979. (Floor amendment by Senator Ford, adopted by voice vote, extends exclusion period from calendar 1976 through 1979 for those participating in 1976). <i>Revenue effect</i> —Loss of \$10 million in fiscal 1977, \$8 million in fiscal 1978, \$8 million in fiscal 1979, and \$2 million in fiscal 1980.	
213. Tax counseling for the elderly (Sec. 2305 of Senate amendment, p. 958)	No provision.	No provision.	Authorizes the IRS to enter into agreements with private organizations to provide training and technical assistance to prepare volunteers as tax consultants for the elderly. Authorizes tax-free reimbursement to volunteers for transportation, meals and other expenses. The Secretary would be authorized to hire retiree-annuitants who would work up to 720 hours a year without losing their pensions. Also authorizes Secretary to provide publicity for tax provisions of particular importance to the elderly. <i>Effective date</i> —Effective upon enactment. <i>Revenue effect</i> —Loss is negligible. Authorizes expenditures of \$2 million in fiscal 1977 and \$3 million in fiscal 1978.	

TITLE XXIII—OTHER AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
214. Commission on Value Added Taxation (Sec. 2306 of the Senate amendment, p. 962)	No specific provision (except that section 8022 of the Code provides that the Joint Committee on Internal Revenue Taxation is to "investigate the operation and effects of the Federal system of internal revenue taxes").	No provision.	Establishes a 20-member Commission on Value Added Taxation to study the effects of a value-added tax (VAT) on Government finance in general, and also specifically the impact of VAT on savings, consumption, capital formation, and international trade policy, as well as considering VAT as an alternative revenue source for social security financing.	
			Membership on the Commission is to include two Senators, two Congressmen, three cabinet members, the chairman of the Council of Economic Advisors, and 12 members of the public to be appointed by the President, with the Senate's advice and consent.	
			<i>Effective date</i> —Members to be appointed no later than 120 days after date of enactment. A final report to be made to the President and Congress by December 31, 1977.	
			<i>Revenue effect</i> —No revenue impact. Authorizes an appropriation of up to \$1 million for the study.	

TITLE XXII—OTHER AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
215. Exchange funds (Sec. 2307 of amendment, p. 966)	<p>A group of investors may not pool their appreciated stocks in a new corporation without payment of capital gains tax on the appreciation. (This rule was added in 1966.)</p> <p>The Code is silent on the possibility of using a partnership or a trust as the vehicle to pool and diversify investments tax-free. On April 28, 1975, the Internal Revenue Service issued a private ruling holding that an exchange fund can be formed tax-free as a publicly syndicated limited partnership.</p>	<p>No provision. However, on May 2, 1976, the House passed H.R. 11920, which:</p> <p>(1) Amends the partnership rules to make taxable the contributions of property to an exchange funds formed as a partnership (general or limited);</p> <p>(2) Makes taxable mergers involving an undiversified investment company (such as a merger of a personal holding company owning a limited group of stocks with a widely-diversified mutual fund); and</p> <p>(3) Makes taxable any future transactions where similar diversification of investments is sought through a trust or a common trust fund.</p>	<p>Generally, the same as the provisions of H.R. 11920, except for—</p> <p>(1) An exception for family partnerships; and</p> <p>(2) A later effective date for partnership exchange funds.</p> <p>Under the family partnership exception, a family group may share income from a pool of stocks if—</p> <p>(1) the partnership is a general partnership,</p> <p>(2) over 95 percent of the partnership is owned by the same family, and</p> <p>(3) gain on a sale of stock is taxable to the partner who originally contributed the property to the partnership.</p>	
216. Distributions by subchapter S corporations (Sec. 2308 of amendment, p. 974)	<p>The shareholders of a subchapter S corporation are taxed each year on the income of the corporation regardless of whether the income is distributed to the shareholders. This undistributed taxable income may be subsequently distributed tax-free to the shareholders. However, an earnings and profits rule (concerning accelerated depreciation) generally applicable to corporations may cause taxable income to the shareholders when previously taxed income is later distributed.</p>	<p><i>Effective date</i>—(1) For partnerships, H.R. 11920 generally applies to transfers made after February 17, 1976, except that certain transfers after that date are exempted if, before February 18, 1976, the partnership filed a request for a private letter ruling from the IRS and filed a registration statement with the SEC. (2) For reorganizations, applies to transfers after February 17, 1976. (3) For trusts and common trust funds, applies to transfers after April 7, 1976.</p> <p><i>Revenue effect</i>—Gain is negligible for H.R. 11920.</p> <p>No provision.</p>	<p><i>Effective date</i>—Same as House bill except that, for partnerships, certain transfers after February 17, 1976, are exempted if before March 27, 1976, the partnership either filed a request for a private letter ruling from the IRS or filed a registration statement with the SEC.</p> <p><i>Revenue effect</i>—Gain is negligible in fiscal 1977 and fiscal 1978 and \$12 million in fiscal 1981.</p> <p>Allows a subchapter S corporation's previously taxed income to be distributed to the shareholders before the shareholders will be considered to have taxable income from the distribution attributable to earnings and profits arising from accelerated depreciation.</p> <p><i>Effective date</i>—Effective for taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Loss is negligible.</p>	

TITLE XXIV—UNITED STATES INTERNATIONAL TRADE COMMISSION

Item	Present law	House bill	Senate amendment	Conference action
217. Voting by International Trade Commission on import relief (Sec. 2402 of Senate amendment, p. 975)	Provides that the President may consider as the finding of the Commission the finding on injury or remedy agreed upon by one-half the number of Commissioners voting on an escape clause or market disruption case if there is no majority finding. If the Commission is equally divided into two groups, the President may choose the finding of either group. (Sec. 330(d) (1) of the Tariff Act of 1930 (19 U.S.C. 1330).)	No provision.	Provides that the President must consider as the finding of the Commission on remedy the findings agreed upon by a plurality of the Commissioners voting on an escape clause or market disruption case if there is no majority finding on remedy. If the Commission is divided into two or more groups the President must consider the finding of one group as the finding of the Commission. Only those Commissioners voting affirmatively on injury may vote on the remedy question. For purposes of the Congressional override in sections 202 and 203 of the Trade Act, the plurality finding on remedy and the finding chosen by the President in the case of a tie vote are considered to be the findings of the Commission.	
218. Increase in number of Commissioners (Sec. 2403 of Senate amendment, p. 978)	Provides for six Commissioners with 9-year terms. Each Commissioner serves the last 18 months of his term as Chairman. Each Commissioner serves as vice-chairman during the 18-month period ending when he takes office as chairman.	No provision in H.R. 10612. Senate amendment is inconsistent with section 2 of House-passed H.R. 13396 (see sec. 2405, item 250 on p. 121).	<i>Effective date</i> —Applies to findings made after the date of enactment. <i>Revenue effect</i> —None. Provides for seven Commissioners with 8-year and 9-month terms. Each Commissioner is to serve his last 15 months as Chairman and his next to last 15 months as vice-chairman. The terms of Commissioners now in office are not affected. Terms of Commissioners appointed between the date of enactment and September 16, 1985, will vary between 10 years and 8 years 7 months to establish the new 8-year and 9-month cycle. A Commissioner may continue to serve until his successor takes office.	
219. Authorization of appropriations (Sec. 2404 of Senate amendment, p. 981)	None.	No provision in H.R. 10612. Section 1 of House-passed H.R. 13396 authorizes \$11,339,000 for fiscal year 1977, but contains no authorization for fiscal 1978. H.R. 13396 contains commissioner staff limitation identical to Senate amendment.	<i>Effective date</i> —Date of enactment. <i>Revenue effect</i> —No revenue effect; involves increased expenditure of approximately \$147,000 annually for additional Commissioner. Authorizes \$11,789,000 for fiscal year 1977 and \$12,036,000 for fiscal year 1978. (The appropriation enacted for fiscal year 1977 is \$11,350,000). Limits the personal staff of each Commissioner to 4, except the chairman, who may have 6.	
			<i>Effective date</i> —October 1, 1976. <i>Revenue effect</i> —No revenue effect; involves cost of about \$11,789,000 in fiscal 1977.	

TITLE XXIV—UNITED STATES INTERNATIONAL TRADE COMMISSION—Continued

Item	Present law	House bill	Senate amendment	Conference action
220. Administration of the Commission (Sec. 2405 of the Senate amendment, p. 982)	Provides that the Chairman shall be the Commissioner whose term is first to expire and who has at least 18 months remaining in his term. The vice-chairman shall be the Commissioner whose term is second to expire and who has at least 36 months remaining in his term. The entire Commission is responsible for all administrative matters.	No provision in H.R. 10612. Senate amendment is identical to section 2 of House-passed H.R. 13396.	Provides that the Chairman shall be elected by the Commission for a 3-year term. No Commissioner may serve more than 2 terms as Chairman. The office of vice chairman is abolished. The Chairman is given responsibility for all administrative matters except key personnel employment, external relations, and the budget.	
221. Continuation of reports with respect to synthetic organic chemicals (Sec. 2406 of Senate amendment, p. 983)	No provision.	No provision in H.R. 10612. Senate amendment is identical to section 3 of House-passed H.R. 13396. (The International Trade Commission announced on Aug. 17, 1976, its intention to continue publication of reports, but only for 1 additional year.)	<p><i>Effective date</i>—The election of the Chairman takes effect on December 17, 1976. The administrative provisions go into effect on date of enactment.</p> <p><i>Revenue effect</i>—None.</p> <p>Requires the International Trade Commission to continue making reports with respect to synthetic organic chemicals until January 1, 1981.</p> <p><i>Effective date</i>—Date of enactment.</p> <p><i>Revenue effect</i>—No revenue effect; involves annual cost of about \$120,000.</p>	

TITLE XXV—ADDITIONAL MISCELLANEOUS AMENDMENTS

Item	Present law	House bill	Senate amendment	Conference action
222. Contributions of certain Government publications (Sec. 2502 of Senate amendment, p. 985)	In most situations, Government publications received by taxpayers without charge (e.g., copies of the Congressional Record received by Members of Congress) or at a reduced price are treated as capital assets under current law. One consequence of that treatment is that taxpayers can claim a deduction for the full fair market value of any Government publication which they contribute to a charity (such as a library or a university) for a use related to the charity's exempt purpose.	No provision.	U.S. Government publications which are received by any taxpayer from the Government without charge or below the price at which they are sold to the general public are no longer to be treated as capital assets in the hands of the taxpayer receiving the publications. This treatment is also to apply to any Government publication held by a taxpayer in whose hands the basis of that publication is determined by reference to its basis in the hands of a person receiving it free or at a reduced price.	
			<i>Effective date</i> —Applies to sales, exchanges, and contributions made after the date of enactment.	
			<i>Revenue effect</i> —Loss is negligible.	
223. Lobbying by public charities (Sec. 2503 of the Senate amendment, p. 986)	An organization is not exempt from income tax and cannot receive deductible contributions as a charity unless "no substantial part of the activities of [the organization] is carrying on propaganda, or otherwise attempting, to influence legislation."	No provision in the tax reform bill. However, H.R. 13500, as passed by the House, allows public charities (other than churches, church affiliates and certain support organizations) to elect to come under a new expenditures test for lobbying. The new test establishes sliding scale limitations for overall lobbying and grass roots lobbying. An excise tax is imposed on minor violations; loss of exemption is reserved for sustained excessive violations. Requires disclosure of lobbying expenditures by electing organizations. An organization eligible to elect cannot become exempt under section 501 (c) (4) if it loses 501 (c) (3) exemption because of excessive lobbying. Prohibits persons from deducting out of pocket expenditures on behalf of any charity if the expenditures are made to influence legislation.	Same as H.R. 13500 except that rules disallowing deductions for out of pocket expenditures made to influence legislation do not apply to expenditures of organizations that are not eligible to elect the new expenditures tests.	
			<i>Effective date</i> —Same as House bill.	
			<i>Revenue effect</i> —Same as House bill.	

TITLE XXV—ADDITIONAL MISCELLANEOUS AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
224. Tax liens, etc., not to constitute "acquisition indebtedness" (Sec. 2504 of the Senate amendment, p. 1009)	Generally, an exempt organization is taxed on investment income only to the extent there is "acquisition indebtedness" on the investment property generating the income. The IRS has taken the position that special assessments (payable in installments) imposed by a State or local governmental unit constitute acquisition indebtedness.	No provision.	Amounts of indebtedness for taxes or special assessments by State or local governmental units and secured by a lien on property are not acquisition indebtedness until, and to the extent that, the amounts become due and payable and the organization has had an opportunity to pay them. <i>Effective date</i> —Applies to all taxable years ending after December 31, 1969. <i>Revenue effect</i> —Loss is negligible.	
225. Extension of private foundation transitional rule for sale of business holdings (Sec. 2505 of Senate amendment, p. 1010)	The self-dealing rules for private foundations contain a transition rule which expired on January 1, 1975. This rule permitted private foundations to sell, exchange, or otherwise dispose of certain "nonexcess" business holdings to disqualified persons.	No provision.	Extends transitional rule for sale, etc., of certain nonexcess business holdings to disqualified persons. <i>Effective date</i> —Applies to dispositions occurring after the date of enactment and before January 1, 1977. <i>Revenue effect</i> —Loss is negligible.	
226. Private operating foundations; Imputed interest; Libraries and museums (Sec. 2506 of Senate amendment, p. 1010)	Private operating foundations, including libraries and museums, normally are required to spend annually for charitable purposes an amount equal to at least two-thirds of their minimum investment return. Private non-operating foundations are required to distribute annually an amount equal to the greater of the foundation's adjusted net income or its minimum investment return. Adjusted net income includes imputed interest. All private foundations pay an excise tax equal to 4 percent of their net investment income.	No provision.	Reduces the amount that a private operating foundation must spend for charitable purposes to 3 percent of its noncharitable assets. Excludes from a private foundation's adjusted net income amounts of imputed interest on sales made prior to January 1, 1970. Exempts libraries and museums from the tax on net investment income if the library or museum elects to spend for charitable purposes an amount equal to 5 percent of its noncharitable assets. <i>Effective date</i> —Effective for taxable years ending after date of enactment. <i>Revenue effect</i> —Loss is negligible.	

$50\% \times \frac{2}{3} = \frac{10}{3} = 3\frac{1}{3}\%$

TITLE XXVI—OTHER MISCELLANEOUS AMENDMENTS

Item	Present law	House bill	Senate amendment	Conference action
227. Study of tax incentives (Sec. 2508 of Senate amendment, p. 1014) (Floor amendment by Senator Hathaway, adopted by voice vote)	None	No provision.	Requires the Joint Committee to study, in consultation with Treasury, tax incentives, especially as used to provide stimulus to economy during recession. A report is to be made to the Senate Finance Committee and the House Ways and Means Committee.	
228. Credit for certain education expenses (Sec. 2601 of Senate amendment, p. 1015)	None	No provision.	<i>Effective date</i> —Final report due not later than September 30, 1977. Provides a credit for certain educational expenses paid by an individual for himself, his spouse, or his dependents. Applies to tuition, fees, books and supplies in regard to college programs leading to undergraduate degrees and to vocational courses leading to program certificates, but only for full-time students. The credit is limited to \$100 in 1977, \$150 in 1978, \$200 in 1979, and \$250 in 1980 and following years. <i>Effective date</i> —Applies to expenses for courses beginning after June 30, 1977.	
229. Interest on certain governmental obligations for hospital construction (Sec. 2602 of Senate amendment, p. 1021)	Public hospitals operated by governmental units may be financed with tax-exempt bonds. Private hospitals are not included among exempt activities for which unlimited tax-exempt industrial development bonds may be issued. Thus, private hospitals are not eligible for tax-exempt industrial development bonds, except under the \$5 million small issue exemption.	No provision.	<i>Revenue effect</i> —Loss of \$467 million in fiscal 1978, \$711 million in fiscal 1979 and \$1,103 million in fiscal 1981. The \$5 million small issue exemption is increased to \$20 million for private hospitals which are certified as necessary by appropriate State agencies.	
			<i>Effective date</i> —Applies to obligations issued after December 31, 1976 in taxable years beginning after that date. <i>Revenue effect</i> —Loss of \$1 million in fiscal year 1977, \$3 million in fiscal 1978 and \$14 million in fiscal 1981.	

TITLE XXVI—OTHER MISCELLANEOUS AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
230. Group prepaid legal services (Sec. 2603 of Senate amendment, p. 1022)	Depending on structure of specific group legal services plan, employee must pay tax on either (1) his share of employer contributions to plan on his behalf, or (2) value of legal services or reimbursements received by him under plan.	No provision.	Excludes from employee's income both (1) employer contributions and (2) benefits received under qualified group legal services plans. Applies to plans established to provide personal legal services for employees and their spouses and dependents through prepayment of, or advanced provision for, legal fees. Plans must be organized through tax-exempt organizations or trusts (or established through insurance companies). To qualify, plans must be nondiscriminatory with respect to enrollment and benefits. Limitations are placed on amounts contributed to provide benefits for employee-shareholders or owners.	
			<i>Effective date</i> .—Applies to taxable years beginning after December 31, 1973.	
			<i>Revenue effect</i> .—Loss of \$7 million in fiscal 1977, \$8 million in fiscal 1978 and \$33 million in fiscal 1981.	
231. Certain hospital services and unrelated business income (Sec. 2604 of Senate amendment, p. 1029)	Income received by tax-exempt hospitals from providing services to other tax-exempt hospitals is taxed as "unrelated trade or business income."	No provision.	Exempts from the unrelated trade or business tax the income of a tax-exempt hospital received for providing certain services to other small tax-exempt hospitals each serving 100 or fewer in patients.	
			<i>Effective date</i> .—Effective to all years to which 1954 Code applies.	
			<i>Revenue effect</i> .—Loss is negligible.	
232. Clinical services of cooperative hospitals (Sec. 2605 of Senate amendment, p. 1029)	Cooperatively operated organizations providing certain specified services for tax-exempt hospitals are also exempt organizations. The specified permissible services do not include clinical services.	No provision.	Adds clinical services to the specified services permitted to be performed by a tax-exempt cooperative service organization. (Floor amendment by Senator Ford, adopted by voice vote, deleted the addition of laundry services to the specified services.)	
			<i>Effective date</i> .—Effective for taxable years ending after December 31, 1976.	
			<i>Revenue effect</i> .—Loss is negligible.	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS

Item	Present law	House bill	Senate amendment	Conference action
223. Certain charitable contributions of inventory (Sec. 2606 of the Senate amendment, p. 1030)	Taxpayer's deduction for contributions of appreciated ordinary income property, such as inventory, is limited to the taxpayer's basis in the property.	No provision.	Generally allows corporations a deduction for basis plus one-half of appreciation of ordinary income property, such as inventory, but deduction in no event is to exceed twice basis. Rules apply only to property donated to a public charity or private operating foundation for use in exempt purpose for care of ill, needy, or children. Does not apply to appreciation treated as ordinary income because of "recapture" rules. Also, under a floor amendment of Senator Kennedy, adopted by voice vote, does not apply to property which does not satisfy relevant requirements of the Federal Food, Drug and Cosmetic Act.	
224. Tax credit for expenses for certain amateur athletes (Sec. 2702 of Senate amendment, p. 1033 (floor amendment by Sen. Culver, adopted by voice vote)	None.	No provision.	<i>Effective date</i> —Applies to contributions after date of enactment. <i>Revenue effect</i> —Loss of \$19 million in fiscal 1977, \$22 million in fiscal 1978, and \$24 million in fiscal 1981. Allows a tax credit for 20 percent of the first \$2,000 of an amateur athlete's nonreimbursed expenses of engaging in certain national or international competition, such as in Olympic or Pan American sport competition, world championships, or national championships in the U.S. The portion of the credit not used by athlete can be claimed by the athlete's parent (if the athlete is a dependent) or spouse, with certain limitations, for their expenditures on behalf of the athlete.	
225. Exemption of certain amateur athletic organizations from tax (Sec. 2703 of Senate amendment, p. 1036) (Floor amendment by Sen. Culver, adopted by voice vote)	Organizations which teach youth or which are affiliated with charitable organizations may be exempt under section 501(c)(3) and may receive tax-deductible contributions. Other organizations which foster national or international amateur sports competition may be exempt from taxation under other provisions (such as 501(c)(4) or (6)) but do not qualify to receive tax-deductible contributions.	No provision.	<i>Effective date</i> —Applies to expenses paid or incurred in taxable years beginning after the date of enactment. <i>Revenue effect</i> —Loss is negligible. Permits organizations whose primary purpose is to foster national or international amateur sports competition to qualify as an organization described in section 501(c)(3) and to receive tax-deductible contributions. <i>Effective date</i> —Applies after date of enactment. <i>Revenue effect</i> —Loss is negligible.	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
236. Taxable status of Pension Benefit Guaranty Corporation portion (Sec. 2704 of Senate amendment, p. 1038)	A corporation organized under an Act of Congress is not generally exempt from Federal taxation unless that Act so provides. The Pension Benefit Guaranty Corporation was not specifically exempted from Federal taxation by ERISA (the Employee Retirement Income Security Act of 1974).	No provision.	Amends ERISA to clarify the intent of Congress that the Pension Benefit Guaranty Corporation is to be exempt from all Federal taxation except taxes imposed under the Federal Insurance Contributions Act (social security taxes) and the Federal Unemployment Tax Act (unemployment taxes); <i>Effective date</i> —Applies from September 2, 1974 (the date of enactment of ERISA). <i>Revenue effect</i> —No revenue effect anticipated from this clarification of the intent of Congress. Allows the owner-employee to make the level payments without regard to the overall 25-percent limitation. <i>Effective date</i> —Applies for years beginning after 1975 (effective date of overall limitation). <i>Revenue effect</i> —Loss is negligible.	
237. Level premium plans covering owner-employees (Sec. 2705 of Senate amendment, p. 1038)	An owner-employee covered by an H.R. 10 plan may contribute each year an amount in excess of the general H.R. 10 limits (\$7,500 or 15 percent of earned income, whichever is less) to a plan funded with level payment annuity contracts, if the fixed payment does not exceed \$7,500 and does not exceed the owner-employee's three-year average of deductible amounts. The amount in excess of 15 percent of earned income is not deductible. A separate provision for all qualified plans limits contributions to 25 percent of earned income.	No provision.		
238. Lump-sum distributions from pension plans (Sec. 2706 of Senate amendment, p. 1039) (Floor amendment by Senator Griffin, adopted by voice vote)	A taxpayer may elect in lieu of ordinary income treatment to have a lump sum distribution from a pension plan taxed as (1) capital gains for the portion attributable to pre-1974 participation in a plan, and (2) ordinary income on unmarried rates averaged over a ten-year period for the portion attributable to post-1973 participation. The part of a lump sum pension distribution earned before 1974 is treated as capital gain; the post-1973 part is taxed as ordinary income in a "separate basket", with 10-year income averaging.	No provision.	A taxpayer may irrevocably elect to treat all of a lump sum distribution as if it were earned after 1973 so that it is taxed as ordinary income in a separate basket, with 10-year income averaging. <i>Effective date</i> —Applies to distributions made after 1975 in taxable years beginning after 1975. <i>Revenue effect</i> —Loss of \$10 million in fiscal 1977, \$10 million in fiscal 1978, and \$8 million in fiscal 1981.	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
239. Tax treatment of the grantor of certain options (Sec. 2708 of Senate amendment, p. 1041) (Floor amendment by Senator Percy, adopted by voice vote)	Under IRS rulings, gain from the lapse of an option and gain or loss from a closing transaction in options is generally treated as ordinary income or loss.	No provision in tax reform bill. However, House-passed H.R. 12224 provides that gain from the lapse of an option and gain or loss from a closing transaction in options is to be treated as short-term capital gain or loss.	Same as H.R. 12224.	
240. Exempt-interest dividends of regulated investment companies (Sec. 2709 of Senate amendment, p. 1043) (Floor amendment by Senator Percy, adopted by voice vote)	Distributions by a regulated investment company (commonly called a "mutual fund") from capital gains recognized by it may be treated as capital gain to its shareholders (i.e., the character of the capital gain is "flowed-through" to the shareholders). Under certain conditions, similar "flow-through" treatment is provided for dividend income. However, there is presently no "flow-through" treatment for tax-exempt interest and, consequently, distributions of tax-exempt interest by a regulated investment company are taxable income to its shareholders.	No provision. <i>Effective date</i> —H.R. 12224 applies to options written after June 30, 1976. <i>Revenue effect</i> —Annual revenue gain of approximately \$10 million.	<i>Effective date</i> —Applies to options written after September 1, 1976. <i>Revenue effect</i> —Same as H.R. 12224. Permits the character of tax-exempt interest distributed by a regulated investment company to "flow-through" as tax-exempt interest to its shareholders. <i>Effective date</i> —Applies to taxable years beginning after December 31, 1976. <i>Revenue effect</i> —Loss is negligible.	
241. Commission on tax simplification and modernization (Floor amendment by Sen. Hart of Colorado, adopted by voice vote)	None	No provision.	Establishes a 9-member Commission on Tax Simplification and Modernization: three appointed by President; three by the President pro tempore of the Senate, and three by the Speaker of the House. It is to study the modernization and simplification of the Internal Revenue Code, including possible reduction in rates by modifying or eliminating deductions, exemptions, credits, etc. <i>Effective date</i> —The Commission is to begin on February 1, 1977, with appointments to be made within 30 days. A final report to the President and Congress is to be made not later than August 1, 1978. The Commission is to be disbanded 60 days after reporting. <i>Revenue effect</i> —No revenue effect. Authorizes an appropriation of up to \$1 million.	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
242. Common trust fund treatment of certain custodial accounts (Sec. 2712 of Senate amendment, p. 1053) (Floor amendment by Senator Taft, adopted by voice vote)	Banks may hold in a common trust fund assets held by the bank in its capacity as trustee, executor, administrator or guardian.	No provision.	Extends common trust treatment to cover custodial accounts, such as uniform gifts to minors act accounts. <i>Effective date</i> —Applies after the date of enactment. <i>Revenue effect</i> —None.	
243. Oil and gas depletion rules relating to transfers of proven property (Sec. 2714 of the Senate amendment, p. 1054) (Floor amendment by Senator Bartlett, adopted by voice vote)	Denies small producers exemption from repeal of percentage depletion to proven properties transferred after December 31, 1974, except for transfers at death and certain transfers by corporations under common control.	No provision.	Permits depletion to be retained on property transferred between individuals, corporations and other entities if both the transferor and the transferee are part of the same controlled group after the transfer (and thus must continue to combine oil production to determine the maximum number of barrels of oil eligible for percentage depletion). However, percentage depletion is disallowed at any later time that the transferee ceases to be part of the same controlled group as the transferor. <i>Effective date</i> —Effective after date of enactment. <i>Revenue effect</i> —Loss is negligible.	
244. Support test for dependent children of separated or divorced parents (Sec. 2715 of Senate amendment, p. 1055) (Floor amendment by Senator Bumpers, adopted by voice vote)	Noncustodial parent receives exemption for child (of separated or divorced parents) if (1) he or she contributes at least \$1,200 for support of all the children; and (2) custodial parent does not clearly establish more support for the child than noncustodial parent. Otherwise, custodial parent receives exemption.	No provision.	Allows noncustodial parent to receive exemption for child if he or she contributes at least \$1,200 for each of the children (in addition to the other requirements in present law). <i>Effective date</i> —Effective after date of enactment. <i>Revenue effect</i> —No revenue effect.	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>245. Deferral of gain on involuntary conversion of real property (Sec. 2718 of Senate amendment, p. 1060; floor amendment by Senator Burdick, adopted by voice vote)</p>	<p>1. A taxpayer can elect to defer any gain realized on the involuntary conversion of real property held for productive use in a trade or business (and not stock in trade or other property held primarily for sale) if the converted property is replaced by property of a like kind.</p> <p>2. However, in order to qualify, the converted property must be replaced no later than two years after the close of the first taxable year in which any of the gain is realized.</p> <p>3. If the taxpayer makes the election, the statutory period for assessment of a deficiency does not expire until 3 years after notice of replacement or notice of intent not to replace.</p>	No provision.	<p>1. Removes the limits on the types of real property eligible for deferral by eliminating the requirement that the replacement property be similar or related in service or use to the converted property.</p> <p>2. Extends the period for replacement to four years after the close of the first taxable year in which any of the gain from the conversion is realized.</p> <p>3. Extends the statutory period for assessment of a deficiency to 5 years after notice of replacement or notice of intent not to replace.</p> <p><i>Effective date</i>—Applies to condemnation proceedings beginning on or after date of enactment.</p> <p><i>Revenue effect</i>—Loss of \$84 million in fiscal 1977, \$15 million in fiscal 1978, and \$15 million in fiscal 1981.</p>	
<p>246. Exclusion from gross income of gain from sale of residence by taxpayer age 65 or over (Sec. 2719 of Senate amendment, p. 1061) (Floor amendment by Senator Hatfield, adopted by voice vote)</p>	<p>If a taxpayer who has attained age 65 sells his principal residence, he may exclude the entire gain from the sale if the adjusted sales price is less than \$20,000. However, if the adjusted sales price exceeds \$20,000, he may exclude only that portion of the gain which \$20,000 bears to the adjusted sales price.</p>	No provision.	<p>Increases the adjusted sales price limitation from \$20,000 to \$35,000.</p> <p><i>Effective date</i>—Applies to taxable years beginning after 1976.</p> <p><i>Revenue effect</i>—Loss of \$4 million in fiscal 1977, \$25 million in fiscal 1978, and \$25 million in fiscal 1981.</p>	
<p>247. Exemption from taxation for certain mutual deposit guaratee funds (Sec. 2721 of the Senate amendment, p. 1062) (Floor amendment by Senator Mathias, adopted by voice vote.)</p>	<p>Nonprofit mutual corporations or associations organized before September 1, 1957, for the purpose of providing reserve funds for, and insurance of, shares or deposits in savings and loan associations, cooperative banks, or mutual savings banks are exempt from income tax.</p>	No provision.	<p>Extends the exemption to cover organizations organized before January 1, 1969.</p> <p>Permits organizations to provide reserve funds for, and insurance of, shares or deposits in credit unions.</p> <p><i>Effective date</i>—Applies to taxable years beginning after December 31, 1975.</p> <p><i>Revenue effect</i>—Revenue loss is negligible.</p>	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
<p>248. Additional changes in subchapter S shareholder rules (Sec. 2722 of Senate amendment, p. 1063.) (Floor amendment by Senator Nelson, adopted by voice vote)</p>	<p>A corporation is required to have 10 or fewer shareholders in order to elect and maintain subchapter S treatment. A trust may not be a shareholder in a subchapter S corporation. A husband and wife are treated as one shareholder where the stock is community property or held jointly by them. All shareholders must consent to an election or revocation of subchapter S status. However, a subchapter S election will be terminated if any new shareholder fails to consent to the election, generally within a period of 30 days.</p>	<p>No provision.</p>	<p>(1) Where either husband or wife, or both, die, the estate of the deceased will be treated as one shareholder with the surviving spouse (or her estate) if husband and wife were treated as one shareholder while both survived and the stock continues to be held in the same proportions as before death. (2) Grantor trusts and voting trusts would be eligible shareholders; also, any type of trust which receives stock under a will would be an eligible shareholder, but only for a period of 60 days. (3) A subchapter S election will not be terminated unless a new shareholder affirmatively refuses to consent to the election within 60 days.</p>	
<p>249. Individual retirement accounts for volunteer firemen (Sec. 2723 of Senate amendment, p. 1067) (Floor amendment by Senator Helms, adopted by voice vote)</p>	<p>An active participant in a government plan in a taxable year is not allowed a deduction for a contribution to an individual retirement account (IRA) for that year.</p>	<p>No provision.</p>	<p><i>Effective date</i>—Effective for tax years beginning after December 31, 1976. <i>Revenue effect</i>—Loss is negligible. Extends deduction for contributions to an IRA by a person who would be eligible for an IRA but for membership in a volunteer fire department or in a government plan for volunteer firemen. <i>Effective date</i>—Effective after date of enactment. <i>Revenue effect</i>—Revenue loss is negligible.</p>	
<p>250. Livestock sold on account of drought (Sec. 2726 of Senate amendment, p. 1075) (Floor amendment by Senators Humphrey and McGovern, adopted by voice vote)</p>	<p>None.</p>	<p>No provision.</p>	<p>Cash method taxpayer may elect to include in taxable year following taxable year of sale or exchange income from the sale or exchange of livestock sold on account of drought. Limited to income from the sale or exchange of livestock (1) the number of which is in excess of usual business practice, and (2) which would not have been sold but for the drought. Also, the drought must result in an area which is designated as eligible for Federal assistance. <i>Effective date</i>—Effective for taxable years beginning after 1975. <i>Revenue effect</i>—Loss of \$20 million in fiscal 1977, gain of \$20 million in fiscal 1978, and no revenue effect thereafter.</p>	

TITLE XXVII—ADDITIONAL SENATE FLOOR AMENDMENTS—Continued

Item	Present law	House bill	Senate amendment	Conference action
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251. Sense of the Senate regarding revenue loss of bill in conference (Sec. 2727 of Senate amendment, p. 1076) (Floor amendment by Senator Long, adopted by voice vote)	None	No provision.	Expresses sense of the Senate that the Senate conferees are, to the extent practicable, to limit the revenue loss from the tax reform bill to \$15.3 billion for fiscal year 1977.	
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